THE MILLENNIUM CHALLENGE CORPORATION IN AFRICA: PROMISE VERSUS PROGRESS

HEARING

BEFORE THE

SUBCOMMITTEE ON AFRICA AND GLOBAL HEALTH

OF THE

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THE MILLENNIUM CHALLENGE CORPORATION IN AFRICA: PROMISE VERSUS PROGRESS

THURSDAY, JUNE 28, 2007

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON AFRICA AND GLOBAL HEALTH,
COMMITTEE ON FOREIGN AFFAIRS,
Washington, DC.

The subcommittee met, pursuant to notice, at 2:34 p.m. in room 2172, Rayburn House Office Building, Hon. Donald Payne (chairman of the subcommittee) presiding.

Mr. PAYNE. Good afternoon. Welcome to this hearing of the Subcommittee on Africa and Global Health on the Millennium Challenge Account in Africa.

In March 2002, President Bush announced his plan to develop what he termed a new compact for global development. At that time he pledged to increase United States development assistance by $5 billion over 3 years. In that speech on March 14, President Bush outlined the proposal which had three primary concepts. He said that we would be looking at ruling justly, promoting good governance, fighting corruption, respecting human rights and adhering to the rule of law.

He mentioned, secondly, investing in people; providing adequate health care, education and other opportunities promoting an educated and healthy population. Finally, he said we would look at whether a country is fostering enterprise and entrepreneurship, by promoting open markets and sustainable budgets.

In January 2004, Congress authorized this program. The Millennium Challenge Account (MCA) was established in January to carry out the President's vision. Today, 3½ years later, we are here to assess the achievements of the Millennium Challenge Account in Africa. As you know, this is a global program, but we are concerned with its impact on Africa.

If one examines the statistics related to Africa and the MCA, it appears that African countries are faring very well. To date, of the 40 countries eligible for assistance worldwide, 19 are in Africa. With the approval yesterday of compacts between the Millennium Challenge Corporation and the countries of Lesotho and Mozambique, 7 countries in Africa have signed MCA compacts representing over half of the 13 agreements that had been signed worldwide thus far. The compacts African countries have signed are worth over $2 billion, more than 60 percent of the $3 billion allocated toward compacts worldwide.

However, if we look beyond those figures, the progress has not been quite as dramatic. I have two concerns primarily. First is the slowness of the process. According to the Government Accountability Office, it took an average of 633 days, or just under 2 years, for five African countries with compacts to develop and enter into these agreements with the MCC. The two additional countries whose compacts were just accepted have been compact-eligible since 2004. There is still one African country that has been eligible for MCC funds since 2004 that has yet to complete the agreement process.

We know that the process is complicated. Sixteen indicators need to be evaluated. So the process is indeed complicated to find those that are eligible. However, we feel that the process seems somewhat lethargic. It is not moving forward as expeditiously as we would like to see it.

Signing an agreement does not result in the immediate payout of funds. The good new is that you sign it; the bad news is that doing so is just really the beginning. Madagascar, the first country to sign a compact with the MCC, has disbursed only $14 million of the $110 million contained in the 2-year-old agreement. The MCC projected that by this point in time, over half of the $110 million would be spent. In fact, only 23 percent of the disbursements the MCC planned to make in Africa by now have actually been made, and it is unclear to me that a significant portion of the money that has been released has been spent on programs rather than on administrative and/or startup costs.

My second concern is about continuing large levels of appropriations in the face of unexpended funds. Congress has provided approximately $6 billion to the MCC account, and there is another $1.8 billion provided in fiscal year 2008 in the foreign operations appropriations bill that was approved by the House last week. Unfortunately, a significant amount of the money remains unspent.

While I strongly believe we need to give this new initiative a chance because of what it could mean to African countries and other countries around the world, it is important that the MCC begin to show results. Some might dismiss this concern as unfair because of the requirements for the MCC to have money on hand before it commits to fund compacts. This is a requirement Congress may need to reexamine unless the MCC can shorten the time frame between country selection and project implementation.

Appropriations are a zero sum game, and the sums currently available are not high. It is extremely difficult to support continued set-asides for an initiative that 3-plus years into the process is not fully operational, while at the same time under resourcing other development assistance activities.

Obviously we have a lot to talk about. I hope that during the course of their testimonies our witnesses will discuss not only the concrete results the MCC has achieved over the past 3 years, but also what Congress can expect to see over the next 12 to 18 months in terms of results, and their suggestions for balancing the future benefits and promise of MCA projects with the very real need to adequately fund programs to address the pressing health and development needs Africa is facing today.

I think that this program is important. I think that it was creatively conceived. I think that the three primary goals are excellent. However, in Congress, when money lays on the shelf, it does not gain dust. Other programs take it over. And so if we are going to see this move forward, I think it is incumbent upon all of us to find out where we need to oil the cogs in the wheel to get things rolling because there is so much that needs to be done.

[The prepared statement of Mr. Payne follows:]

PREPARED STATEMENT OF THE HONORABLE DONALD M. PAYNE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW JERSEY, AND CHAIRMAN, SUBCOMMITTEE ON AFRICA AND GLOBAL HEALTH

Good afternoon. Welcome to this hearing of the Subcommittee on Africa and Global Health on the Millennium Challenge Account in Africa.

In March of 2002, President Bush announced his plan to develop what he termed a new compact for global development. At that time he pledged to increase United States development assistance by $5 billion by 2006.

The Millennium Challenge Account was established in January of 2004 to carry out the President's vision. Today, three and a half years later, we are here to assess the achievements of the MCA in Africa.

If one examines the statistics related to Africa and the MCA, it appears that African countries are faring very well. To date, of the forty countries eligible for assistance world-wide, nineteen are in Africa. With the approval yesterday of compacts between the Millennium Challenge Corporation and the countries of Lesotho and Mozambique, seven countries in Africa have signed MCA compacts, representing over half of the thirteen agreements that have been signed thus far. The compacts African countries have signed are worth over $2 billion—more than sixty-percent of the $3 billion allocated towards compacts worldwide.

However, if we look beyond those figures, the progress has not been quite as dramatic. And I have two concerns. First is the slowness of the process.

According to the Government Accountability Office, it took an average of 633 days—or just under two years—for five African countries with compacts to develop and enter into those agreements with the MCC. The two additional countries whose compacts were just accepted had been compact eligible since 2004. There is still one African country that has been eligible for MCC funds since 2004, has yet to complete the agreement process.

And signing an agreement does not result in the immediate payout of funds. Madagascar, the first country to sign a compact with the MCC, has disbursed only $14.47 million of the $110 million contained in the two year-old agreement. The MCC had projected that by this point in time, over half of the $110 would be spent. In fact, only 23% of the disbursements the MCC planned to make in Africa by now have actually been made. And it is unclear to me that a significant portion of that money that has been released has been spent on programs rather than on administrative and or start-up costs.

My second concern is about continuing large levels of appropriations in the face of unexpended funds. Congress has provided approximately $6 billion to the Millennium Challenge Account, and there is another $1.8 billion provided in the fiscal year 2008 Foreign Operations Appropriations bill that was approved by the House last week. Unfortunately a significant amount of that money remains unspent. And while I do believe that we need to give this new initiative a chance because of what it could mean to African countries, it is important that the MCC begin showing results.

Some might dismiss that concern as unfair because of the requirement for the MCC to have money on hand before it commits to fund compacts. This is a requirement Congress may need to re-examine unless the MCC can shorten the time frame between country selection and project implementation. Appropriations are a zero-sum game, and the sums currently available are not high. It is extremely difficult to support continued set-asides for an initiative that three-plus years into the process is not fully operational while at the same time under-resourcing other development assistance activities

Obviously we have a lot to talk about. I hope that during the course of their testimony, our witnesses will discuss not only the concrete results that have been achieved over the past three years, but also what Congress can expect to see over the next twelve to eighteen months in terms of results, and their suggestions for balancing the future benefits and promise of MCA projects with the very real need

to adequately fund programs to address the pressing health and development needs facing Africa today.

With that I would like to turn to Mr. Smith for his opening remarks.

Mr. PAYNE. With that, I will turn to the ranking member, Mr. Smith for his opening remarks.

Mr. SMITH OF NEW JERSEY. Thank you very much, Mr. Chairman, for holding this hearing on the Millennium Challenge Corporation in Africa. The MCC program, which was announced by President Bush on March 14, 2002, and established in January 2004, marked an incredibly new approach to U.S. foreign assistance. It is based on the principle that assistance is most effective when it promotes good governance, investments in people and in economic freedom. Its goal is to reduce global poverty through sustainable economic growth.

Grants for the Millennium Challenge Account are limited to countries with a per capita income of less than $3,465. In addition, eligible countries must have an established record that satisfies 16 performance indicators in the 3 areas I just noted. One of the most important is a pass/fail test for fighting corruption.

Seven grants, called compacts, have been signed so far for countries in Africa with a total of about $2 billion. Additional compacts are pending, and if they proceed, they could provide another $2.5 billion for the continent.

The establishment of the Millennium Challenge Account is innovative in several respects. For one, it mandates that program proposals be developed solely by qualified countries themselves with the involvement of a broad base of their civil society. It also provides assistance to countries without regard to U.S. strategic foreign policy objectives, providing an opportunity for countries that may normally be overlooked by the United States as well as other bilateral donors.

However, it cannot be said that the MCC for that reason does not serve U.S. interests. In fact, authentic development as envisioned by the MCC principle leads to a more prosperous, peaceful and just world for all of us.

Finally, I would assert that the MCC is most laudable because it recognizes the potential of the poor to lift themselves and their country out of the clutches of poverty if they are provided with the necessary infrastructure and tools. A serious incentive is provided by the MCC to the recipient country's government to focus and respond to the needs of the poor segment of their population. The MCC provides an important means of empowerment for those who have the greatest difficulty attaining it.

A glance at the various compacts and threshold programs in Africa highlights the extraordinary needs and the necessity of expanding those programs. Just a few weeks ago on May 16th, this subcommittee held a hearing on Africa's water crisis where we lamented the fact over 1.1 billion people in developing countries do not have adequate access to safe water, and approximately 2.6 billion people live without basic sanitation. We heard testimony that the reasons for these deficiencies are rooted in inequalities. The poor not only have significantly less access to water, but even when they do have access, they pay significantly more for it. The MCC,

with its focus on programming for the poor, is one mechanism that the United States can utilize to address this issue at its root cause.

On the political level, it is worth noting that our parliamentary colleagues in developing countries do not always have the resources they need to fulfill their role in democracy. The MCC threshold program in Malawi will provide the National Assembly of that country with the capacity for all 13 committees to meet and perform their oversight function, a first in Malawi history.

As with all new programs, the MCC has encountered challenges in Africa that we will be examining during the course of this hearing. One of the greatest has been providing disbursements in a timely manner while ensuring accountability and sustainability.

Another that we are encountering time and again in numerous development efforts in Africa, including programs for HIV/AIDS, is partner country capacity. It is extremely difficult to implement country-driven initiatives when the country itself is lacking experienced personnel on the ground to do the work. However, neither of these or other challenges warrant scaling back on the MCC programming, but instead provide the opportunity to search for solutions to these issues together with the recipient country government as well as other bilateral and multilateral assistance donors.

The MCC is not the total solution, as we all know, to African development, but it is an important and significant contribution both in terms of resources and philosophy to a more global strategy.

Again, I thank you for calling the hearing and yield back the balance of my time.

[The prepared statement of Mr. Smith follows:]

PREPARED STATEMENT OF THE HONORABLE CHRISTOPHER H. SMITH, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW JERSEY

Thank you, Mr. Chairman, for holding this hearing on the Millennium Challenge Corporation in Africa. The MCC program, which was announced by President Bush on March 14, 2002 and established in January 2004, marked an incredible new approach to U.S. foreign assistance. It is based on the principle that assistance is most effective when it promotes good governance, investments in people, and economic freedom. Its goal is to reduce global poverty through the promotion of sustainable economic growth.

Grants from the Millennium Challenge Account are limited to countries with a per capita income less than $3,465. In addition, eligible countries must have an established record that satisfies 16 performance indicators in the three areas I just noted. One of the most important is a pass/fail test for fighting corruption. Seven grants—called compacts—have been signed so far for countries in Africa, with a total value of about $2.4 billion. Additional compacts are pending for the Continent.

The establishment of the Millennium Challenge Account is innovative in several respects. For one, it mandates that program proposals be developed solely by qualified countries themselves with the involvement of a broad base of their civil society. It also provides assistance to countries without regard to U.S. strategic foreign policy objectives, providing an opportunity to countries that may normally be overlooked by the U.S. as well as other bi-lateral donors. However, it cannot be said that the MCC for that reason does not serve United States interests. In fact, authentic development as envisioned by the MCC principle leads to a more prosperous, peaceful and just world for all of us.

Finally, I would assert that MCC is most laudable because it recognizes the potential of the poor to lift themselves and their country out of the clutches of poverty if they are provided with the necessary infrastructure and tools. An important correlative to this is the incentive provided by MCC to the recipient country's government to focus on and respond to the needs of the poor segment of their population. The MCC provides an important means of empowerment for those who have the greatest difficulty attaining it.

A glance at the various compacts and threshold programs in Africa highlights the extraordinary needs and the necessity of expanding those programs. This subcommittee held a hearing on Africa's water crisis just a few weeks ago on May 16th, where we lamented the fact that over 1.1 billion people in developing countries do not have adequate access to safe water and approximately 2.6 billion people live without basic sanitation. We heard testimony that the reasons for these deficiencies are rooted in inequalities. The poor not only have significantly less access to water, but even when they do have access, they pay significantly more for it. The MCC with its focus on programming for the poor is one mechanism that the United States is utilizing to address this issue at its root cause.

On the political level, it is worth noting that our parliamentary colleagues in developing countries do not always have the resources they need to fulfill their role in a democracy. The MCC threshold program in Malawi will provide the National Assembly of that country with the capacity for all thirteen committees to meet and perform their oversight function—a first in Malawi's history.

As with all new programs, the MCC has encountered challenges in Africa that we will be examining in the course of this hearing. One of the greatest has been providing disbursements in a timely manner while ensuring accountability and sustainability. Another that we are encountering time and again in numerous development efforts for Africa, including programs for HIV/AIDS, is partner country capacity. It is extremely difficult to implement country-driven initiatives when the country itself is lacking educated, experienced personnel to do the work. However, neither of these or other challenges warrant scaling back on MCC programming, but instead provide the opportunity to search for solutions to these issues together with the recipient country government as well as other bi-lateral and multi-lateral assistance donors. The MCC is not the total solution to African development, but it is an important and significant contribution, both in terms of resources and philosophy, to a more global strategy.

I look forward to exploring the successes of the MCC and ways to improve upon it with our distinguished witnesses.

Mr. PAYNE. Thank you very much, Mr. Smith.

Ms. Woolsey.

Mr. WOOLSEY. No, thank you, Mr. Chairman.

Mr. PAYNE. Mr. Tancredo.

Mr. TANCREDO. No opening comments, sir.

Mr. Smith.

Mr. SMITH OF WASHINGTON. No comments.

Mr. PAYNE. Mr. Royce is with us and served, I think, as chairman of the subcommittee at the time when the MCC was established. I had the pleasure of working with him as the ranking member.

Do you have an opening statement?

Mr. ROYCE. Thank you, Mr. Chairman. I will just say a few words.

I want to thank you also, Chairman, for allowing me to participate here today. I understand that the Majority will be looking to reauthorize the MCC. No doubt we will learn much from this hearing here today that will be useful in that effort.

The MCC is built on two key concepts. One, is to pick countries that are helping themselves by reforming their economies, and then getting a buy-in from that country. We have years of bad results with Beltway experts deciding what Mali and Uganda need and how Mali and Uganda should go about doing it. African countries, frankly, are better judges of their needs, and they are better judges of how to satisfy those needs.

For the MCC to keep its focus, Congress must resist the temptation to earmark it to death. We have got to do that because we have got to learn from the mistakes we made in the past with our other USAID programs. The MCC has some problems, but compared to USAID, it is a model of efficiency.

And MCC has been criticized for not spending money fast enough. Well, aid is a two-edged sword. While it can help, it can also certainly harm. So don't measure MCC by how much money it has spent. MCC has directly aided several African countries. Its impact goes beyond that aid. One of the witnesses will discuss the MCC effect. Countries are reforming in order to qualify, including cleaning up corruption and protecting private property. The same dynamic is at work with the African Growth and Opportunity Act, the other major program designed to promote economic growth in Africa.

And so I look forward to hearing from our witnesses here today, and again, Mr. Chairman, I very much have enjoyed working with you for my 14 years, 15 years in Congress, you have had many more than me, but I am delighted that you are chairman of this panel. Thank you very much.

Mr. PAYNE. Thank you very much.

I also appreciated the honor that we both had of serving as the Congress's representative to the United Nations, and I think that was one of our highlights.

We will begin with our government witness, Mr. Rodney Bent, Deputy Chief Executive Officer for the Millennium Challenge Corporation. Prior to joining MCC in November 2005, Mr. Bent was a professional staff member of the House Appropriations Committee—that is why I think he knows about the dollars hanging around—and I don't think there is a better qualified person to discuss this, where he recommended appropriations levels and policies for U.S. Agency for International Development programs, the U.S. Export-Import Bank, the Overseas Private Investment Corporation, OPIC, and U.S. Trade and Development Agency.

From 2003 to 2004, he served as a senior advisor to the Ministry of Finance and Ministry of Planning and the Director of the Office of Management and Budget for the Coalition Provisional Authorities in Baghdad, Iraq. He was awarded the Secretary of Defense's medal for exceptional public service.

Mr. Bent spent 20 years at the U.S. Office of Management and Budget, was promoted to Deputy Associate Director for International Affairs Division in 1998, and so he certainly has a wealth of experience. And I do agree, too, that money needs to be spent expeditiously, it needs to be spent properly, and so I think that we have a person that has the background.

So let me welcome you back to Congress, of course, on the other side of the table. But we look forward to hearing your testimony, unless the final gentleman who came in—Mr. Miller, would you like to make an opening statement?

Mr. Bent.

STATEMENT OF MR. RODNEY BENT, DEPUTY CHIEF EXECUTIVE OFFICER, MILLENNIUM CHALLENGE CORPORATION

Mr. BENT. Thank you, Chairman Payne, Ranking Member Smith, members of the subcommittee. I particularly appreciate your interest in the Millennium Challenge Corporation's work in Africa. I understand that today's hearing is entitled MCC in Africa: Promises versus Progress, but the reality is that the two are not at odds.

MCC Africa partnerships are making progress toward the promise of reducing poverty through economic growth, in order to transform the lives of the poor in tangible ways. I am submitting a full statement for the record, but if you don't mind, I will highlight just a few key points from it.

On page 2, you can see a map that indicates the full scope of our activities in Africa. That just gives you a snapshot.

We provide grants in two distinct ways—through compacts and through the threshold program. Yesterday, as you noted, our board approved two additional compacts, one with Mozambique for $507 million, and one with Lesotho for $363 million, which, pending congressional notification, will both be signed in July. This means about $2.4 billion of the total $3.9 billion that the MCC has approved for compacts around the world, much more than half, will support projects in Africa.

Threshold programs are designed to assist countries address specific policy weaknesses so that we can push them over the threshold toward compact eligibility. As of yesterday's board meeting, we now have a total of 14 threshold programs, of which 6 are in Africa: Burkina Faso, Kenya, Malawi, Tanzania, Uganda and Zambia. Threshold programs are largely designed to deal with governance issues, for instance, curbing corruption in the health care sector in Kenya, but also for improving primary education for girls in Burkina Faso.

With regards to compacts, they are multi-year agreements, typically they last 5 years, to fund economic growth and antipoverty programs.

The chart on page 3 gives you some illustration of the cumulative growth in these programs in Africa over the last 3 or 4 years. We anticipate that six of the next seven compacts are likely to be with countries on the African continent. With sufficient funding at the President's $3 billion request, we will be in a position soon to sign compacts with Burkina Faso, Morocco, Tanzania, Namibia and Tanzania.

Mr. Chairman, in previous hearings you talked about the obstacles that Africa faces, poor governance, conflict, lack of water, climate change, food security among them. At the MCC we are doing our part to address the core issues that Africans identify as vital for their own development in sectors such as water, infrastructure and agriculture.

Our programs are built on mutual responsibility and accountability and done in full partnership, I want to stress those words, with African countries so that we can bring tangible benefits to the lives of the poor. As an example, on page 8 there is a chart that shows the incomes that we expect for our beneficiaries in Mali, which should increase by nearly 20 percent, in other words, from $526 a year in 2008 to $626 a year in 2016, giving the poor more income for food, education and housing. In practical terms this means that a Malian family can now afford the school-related costs of up to $50 to send their son and daughter to school.

We realize that the MCC is not the only answer to tackling the problems stunting Africa's development. Some MCC-funded activities have grown out of successful USAID projects, while some have

built upon, benefited from or otherwise leveraged the contributions of other donors in the private sector.

Challenges are enormous. The successes that the MCC has measured are not just in terms of the projects we are funding and their expected results, but also in terms of the intangible impacts that create a tangible foundation for economic growth.

When Congress and the administration originally created the MCC as a new model for foreign aid, we also envisioned a new way for evaluating our progress to get at the very core of what makes development transformative and sustainable. Questions that I would respectfully suggest that we ought to look at first: Are MCC-eligible countries reforming their policies? As policy reforms take root, as transparency increases, as the institutional and leadership capacity deepens among our African partner countries, we create the best environment for sustainable development.

Second, are countries consulting with citizens and presenting well-designed programs that will transform the lives of the poor? We partner with our African countries and ask them to do a great deal of work for their own development in order to ensure the sustainability of outcomes well beyond our period of investment.

Third, is project implementation being done in an effective and transparent way? Since we discovered that it is taking our partners longer to ramp up their programs, our first-year estimates of disbursements were admittedly too high. We are, of course, looking at everything internally to see what we can do. You put it as oiling the gears, and we certainly are going to do things like that. I can certainly talk about some of the ideas that we have discussed.

We are providing our partners with more guidance up front, and we are providing them with capacity-building training to help them produce better compacts.

Fourth, when completed, did the projects deliver the desired results? We have a fiduciary responsibility to the American taxpayer to make our disbursements only when our partner countries are ready to use them and when our investments will deliver results.

Those African countries that have challenged their own expectations and have stretched their capabilities and developed new ones are reaping the benefits. Ultimately the leadership, dedication and professionalism of Africans themselves will make poverty reduction more sustainable in the lives of the poor.

Thank you, Mr. Chairman, Ranking Member, members of the committee, for your ongoing interest. I would be delighted to answer your questions.

Mr. PAYNE. Thank you very much. Certainly appreciate your testimony.

[The prepared statement of Mr. Bent follows:]

Statement for the Record by Millennium Challenge Corporation Deputy CEO Rodney Bent Before the House Committee on Foreign Affairs, Subcommittee on Africa and Global Health

June 28, 2007; 2:00 p.m.

Introduction

Chairman Payne, Ranking Member Smith, Members of the Subcommittee, thank you for your interest in the Millennium Challenge Corporation's work in Africa, where we participate in an extensive portfolio of development activities.

The MCC Model

The Millennium Challenge Corporation awards grants—not loans—to some of the world's poorest countries, targeting their poor people, through a streamlined process that applies core principles essential to the effective and efficient use of development assistance in the fight against poverty. MCC does not work with all poor countries, just those ready to engage with us, who can use the money well.

→**Selection Process:** ***First, good policy performance matters.*** For assistance to benefit the poor, it must be awarded to countries that rule justly, invest in the health and education of their people, and promote economic freedom. Objective indicators of policy performance determine which countries qualify for MCC assistance.

→ **Compact Development Process:** ***Second, country ownership is required.*** MCC expects countries to command and lead their development process, from designing a proposal for funding based on a continuing consultative process with all segments of their civil society to building the capacity to implement it.

→ **Implementation Process:** ***Third, tangible results make poverty reduction and economic growth sustainable and transformative.*** Progress benchmarks as well as monitoring and evaluation are built in from the start to ensure accountability and outcomes along the way.

Secretary of State Condoleezza Rice refers to MCC as *"one of our most important tools in changing the conversation about how development takes place, that there is responsibility on behalf of donor countries but there is also responsibility on behalf of those who would receive our aid."* This new vocabulary of mutual responsibility and accountability creates a partnership of equals. It is no longer donor and recipient countries interacting, but, rather, co-partners in development charting a course together toward results.

The MCC model expects much out of its partners, and those African countries that have stepped up are reaping the benefits, not only of receiving a large financial grant from MCC but also of taking charge of their own development. The leadership, dedication,

and professionalism of Africans *themselves* are getting the job done and delivering results.

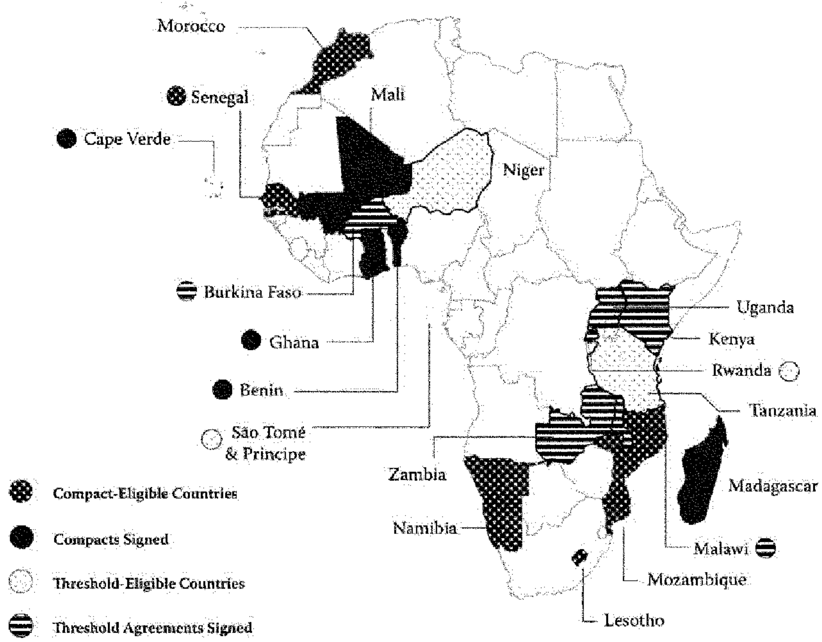
Overview of MCC-Africa Funding Statistics

The partnerships between MCC and African countries exemplify the new vocabulary of responsibility in development.

From pineapple farmers in Ghana seeking to increase their crop production, to anticorruption programs in Kenya and Zambia, to road rehabilitation projects in Cape Verde, to educating girls in Burkina Faso, to investing in the Bamako airport in Mali to increase its capacity for trade, MCC is partnering with African countries to fight poverty and stimulate sustainable economic growth and development. Africa, as a whole, is the largest recipient of MCC's development assistance, both in the number of agreements we have signed and in the amount of aid we have awarded.

MCC awards grants in Africa in two distinct and separate ways: through compacts and through threshold programs. Compacts are multiyear agreements to fund programs aimed at reducing poverty and stimulating growth. Threshold programs are designed to assist countries address specific policy weaknesses to push them over the "threshold" to compact eligibility. Compacts are typically five years in length; threshold programs last for two years. Of the 40 total countries currently eligible for compacts and/or threshold agreements, 19 are in Africa.

Exhibit 1: Map of Programs in Africa



Statistics on Compacts

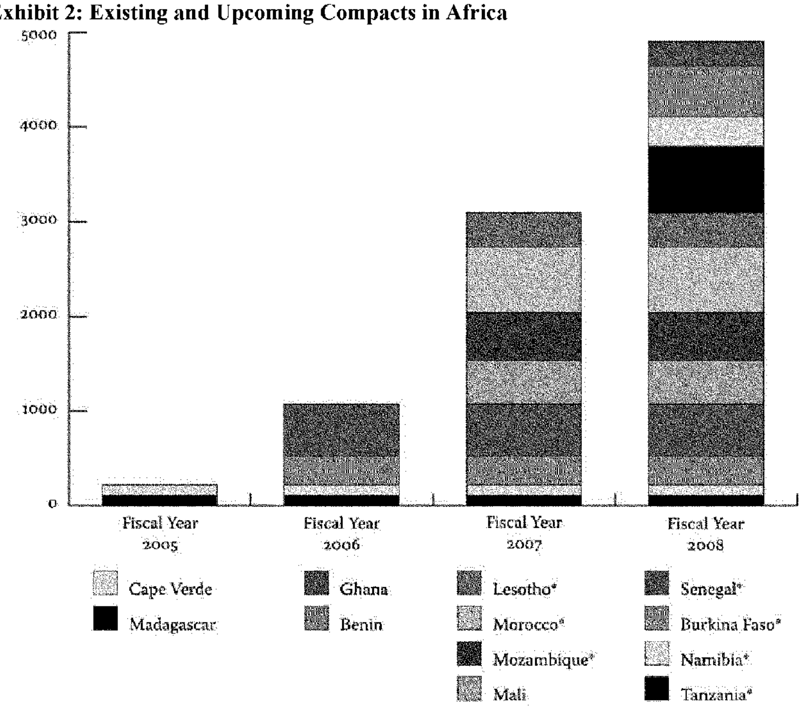
MCC is making tremendous progress in signing and funding compacts in Africa. To date, we have provided a total of $3 billion in compacts to 11 partner countries. Of these 11 compacts, 5 are with the African countries of Benin, Cape Verde, Ghana, Madagascar, and Mali. These 5 compacts alone total over $1.5 billion, meaning that half of what we have awarded so far benefits Africa. Compacts with our African partners range in size from $110 million in our very first to our largest so far at $547 million, and are at various stages of implementation. These compacts have entered into force, with the exception of the Mali compact, and disbursements are underway.

Compact funds in Africa are being invested in the projects identified by Africans themselves as essential for overcoming their specific constraints to poverty reduction and economic growth. It is no surprise, therefore, that many civil society groups in Africa support MCC investments, as they reflect African priorities and not donor preferences. MCC investments are being made in education and community development as well as infrastructure improvements. Such improvements—in roads, ports, an airport, water and sanitation, and electricity grids, for instance—help not only to increase the incomes of the African poor but also to improve their access to healthcare and education. Grant financing for infrastructure projects is very unusual, and this may explain, in part, the large number of proposals we receive for such projects. Moreover, MCC investments in

capacity building and policy reforms ensure that development is sustainable and transformative.

In addition to this strong record on Africa already established by MCC, we anticipate an even stronger push to fight poverty in Africa in the coming months, starting with the signing of compacts with Mozambique and Lesotho in July, pending congressional notification. With sufficient funding, we are in a position to soon sign compacts with Burkina Faso, Morocco, Namibia, and Tanzania. With these six compacts, we anticipate bringing another $3 billion to help the poor in Africa.

Exhibit 2: Existing and Upcoming Compacts in Africa



* Compact values are estimated pending due diligence, Congressional notification, and MCC Board approval.

Statistics on Threshold Programs

In addition, MCC has awarded a total of $310 million in threshold programs to 13 other countries. Six of these 13 threshold agreements are with the African countries of Burkina Faso, Kenya, Malawi, Tanzania, Uganda, and Zambia, totaling $91 million. MCC's newest threshold-eligible countries are Niger and Rwanda, although neither has yet signed a threshold agreement.

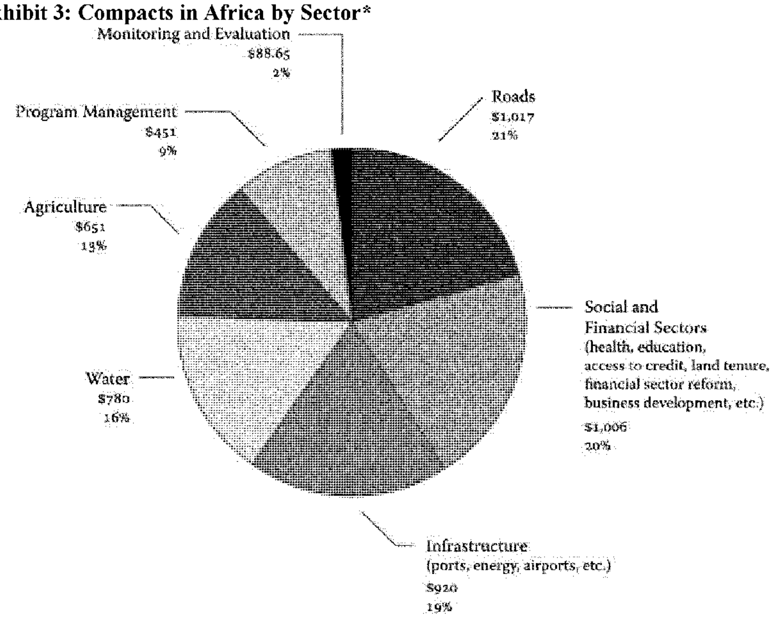
Burkina Faso and Tanzania not only are completing a threshold program but now also qualify for compact funding. MCC requires continued performance on and successful implementation of their threshold programs while they work on developing their respective compacts. Performance on the threshold program will be a key determinant for the MCC board of directors when it considers whether to approve a future compact.

MCC grants support development in Africa. Allow me to illustrate how by describing in detail our work in three areas: compacts, threshold agreements, and the *MCC Effect*.

Compacts in Africa

As the Members of this Subcommittee well know, Africa has its full share of problems in the fight against poverty. MCC compacts are addressing some of them in key sectors. For example, when it comes to roads in Africa, there are less than 4 kilometers available for every 1,000 people. MCC compact investments are refurbishing or upgrading about 400 kilometers of roads, benefiting well over one million Africans in our five partner countries. As a whole, MCC compacts are making investments not only in roads but also in other infrastructure, water and sanitation, agriculture, and social and financial sectors.

Exhibit 3: Compacts in Africa by Sector*



* Compact values are estimated pending due diligence, Congressional notification, and MCC Board approval.

The five current MCC compacts with African partner countries take tailored approaches to the common goal of poverty reduction through economic growth. MCC investments are spurring private sector activities; securing land tenure; increasing financial services; refurbishing roads, ports, and an airport; improving agricultural productivity and

agribusiness operations; aiding small farmers; and promoting rural development by expanding access to education, water, sanitation, and electricity. In every instance, our compacts will increase the incomes of those benefiting from our programs.

Exhibit 4: Projected Income Increase per Beneficiary (Net Present Value)

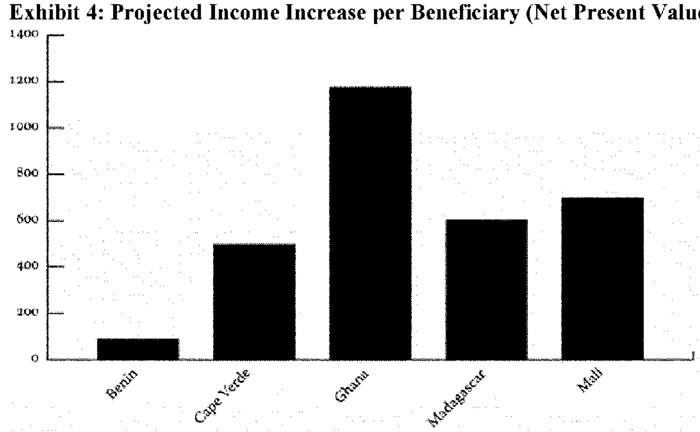
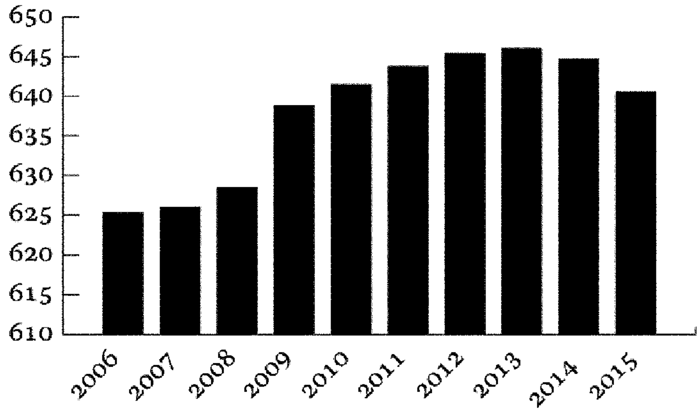


Table Note: Benefits valued over following years: Mali (2007-2026), Cape Verde (2005-2024), Ghana (2007-2024) Madagascar (2005-2014), Benin (2006-2020), Mozambique (2008-2007); GDP per Capita valued at initial year

Let me share with you the specific goals and expected results from each compact.

Benin

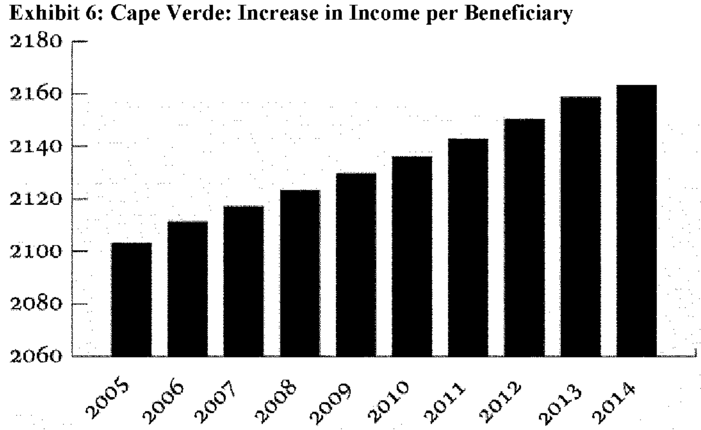
Exhibit 5: Benin: Increase in Income per Beneficiary



The compact with Benin, totaling approximately $307 million, is intended to remove key constraints to economic growth and support improvements in physical and institutional infrastructures in four critical sectors, in order to increase investment and private sector activity. The compact's four main projects include improving access to land, access to financial services, access to justice, and access to markets. The Benin compact is expected to impact an estimated five million beneficiaries and lift 250,000 Beninese from poverty by the year 2015.

Cape Verde

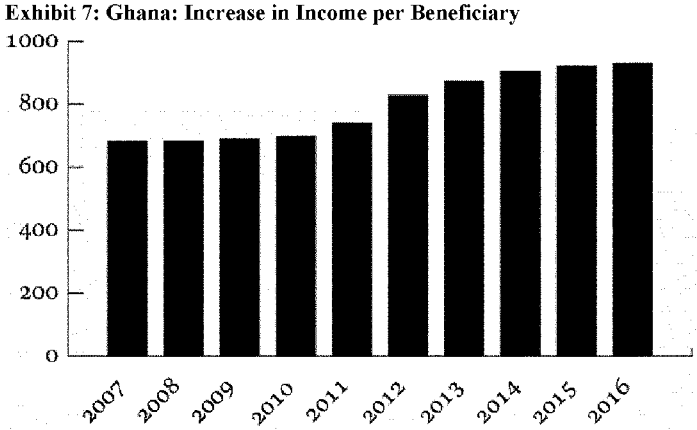
Exhibit 6: Cape Verde: Increase in Income per Beneficiary



The compact with Cape Verde, totaling $110 million, supports the overall national development goal of transforming the economy from aid-dependency to sustainable, private-sector led growth. MCC funds are improving the country's investment climate and reforming the financial sector; improving infrastructure to support increased economic activity and provide access to markets, employment, and social services; increasing agricultural productivity and raising the income of the rural population as well as carrying out key policy reforms needed for sustained economic growth. At the completion of the Cape Verde compact, the program is expected to increase Cape Verde's annual income by at least $10 million.

Ghana

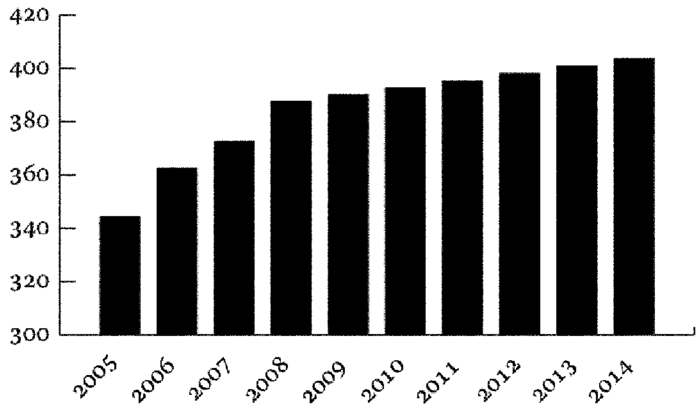
Exhibit 7: Ghana: Increase in Income per Beneficiary



The compact with Ghana, totaling $547 million, reduces poverty through private sector-led agribusiness development. Interventions are intended to reduce poverty by increasing farmers' incomes and export earnings. Specifically, these investments are designed to increase the production and productivity of high-value cash and food staple crops in some of Ghana's poorest regions, and to enhance the competitiveness of Ghana's agricultural products in regional and international markets. The overall economic rate of return of the Ghana compact is estimated at 20 percent. The program is anticipated to help directly alleviate the poverty of over 230,000 Ghanaians and to enhance the livelihood and welfare of one million Ghanaians in total.

Madagascar

Exhibit 8: Madagascar: Increase in Income per Beneficiary

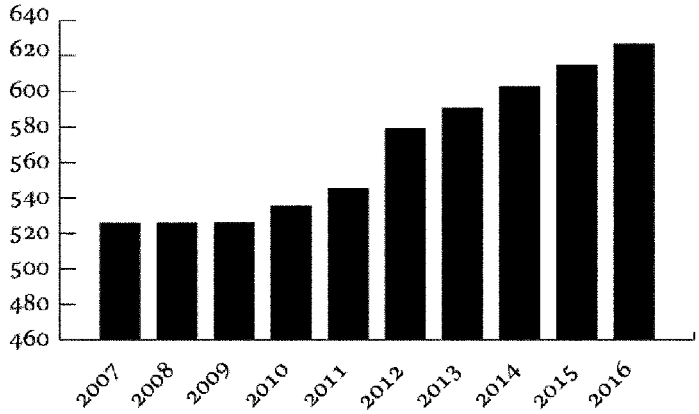


The compact with Madagascar, totaling $110 million, supports a program designed to raise incomes by bringing the rural population from subsistence agriculture to a market economy. The program includes three projects that will work together to help rural Malagasy secure formal property rights to land, access credit and protect savings, and receive training in agricultural production, management, and marketing techniques. This integrated three-pronged approach will provide the rural population with the necessary conditions to use the land productively, to build profitable businesses, and help ensure environmental sustainability. The compact aims to secure property rights to approximately 250,000 hectares of land. This will benefit about 62,000 households, increase lending in the target areas by about $30 million, and significantly increase the number of rural producers that adopt new technologies or engage in higher value production.

We can already point to success stories in Madagascar. Land titles are being awarded, particularly to women. Local farmers are receiving technical assistance from agricultural business centers and tapping into microcredit to expand their operations. Malagasy geranium farmers, for instance, are selling their crops for high-value oil used in soaps and perfumes.

Mali

Exhibit 9: Mali: Increase in Income per Beneficiary



The compact with Mali, totaling $461 million, supports the development of key infrastructure and policy reform for productive sectors by addressing constraints to growth and capitalizing on two of the country's major assets, the Bamako-Sénou Airport, gateway for regional and international trade, and the Niger River delta, for irrigated agriculture. The compact will increase production and productivity of agriculture and small- and medium-sized enterprises as well as expand Mali's access to markets and trade. These objectives will be met through investments aimed at increasing farmers' incomes, enhancing agricultural supply chains, reducing transport costs, and creating a platform for industrial production. Through the compact, the standard of living of tens of thousands of Malians will improve. More than 40,000 Malian farmers and laborers as well as 100,000 school-aged children and their family members will have greater access to education, health services, and markets. More than 50,000 workers will have formal employment because of improved opportunities in manufacturing and trade.

Donor Coordination in Compacts

Some MCC-funded compact activities have grown out of successful USAID or other donor pilot projects, while numerous others have built upon, benefited from, or otherwise leveraged the contributions of our donor partners. Through such coordination, we ensure that our investments magnify development impacts and are cost-effective.

- In Benin, MCC worked with the European Union and the French development agency (*Agence Française de Développement*) to ensure proposed *Access to Justice* activities complemented and leveraged their investments in court infrastructure and procedural code development.

- Madagascar's *Land Tenure Project* benefits from technical assistance provided by the French, World Bank sector work, and pilot initiatives supported by the International Fund for Agricultural Development, the Food and Agriculture Organization, and the International Land Coalition.

Future Compacts

Looking ahead, the compacts we anticipate signing with other African countries include activities with significant human impact.

- The compact with **Lesotho** includes a major investment in that country's health care sector. Such an investment will extend productive life-years and mitigate the negative economic impacts of HIV/AIDS, poor maternal health, tuberculosis, and other diseases by rehabilitating health centers and antiretroviral therapy clinics, constructing a central laboratory and blood transfusion center, and expanding health training and medical waste management. MCC's coordination with the President's Emergency Plan for AIDS Relief in Lesotho will amplify the impact of anticipated health interventions.

- The **Mozambique** compact focuses on water and sanitation. Without this critical infrastructure, Mozambique suffers from one of the world's lowest levels of per-capita water consumption. Mozambican girls and women spend the bulk of their days fetching available water, rather than attending school or engaging in income-generating activities. This program will increase water supply and sanitation services, which will expand productivity and reduce water-borne diseases that are a leading cause of death in children under the age of five.

- Among the components of the **Morocco** compact, one will improve artisan production through increased skills training, technical assistance, continuing education, and apprenticeship programs particularly for girls and undereducated youth. Another component funds a series of pilot programs to support revenue generation programs for small-scale-fishing dependent women.

Examples of significant human impact in the compacts in development include:

- A compact with **Burkina Faso** is expected to include an education component that builds on initial work under its threshold program.

- The proposed compact with **Namibia** is likely to target improving the quality of secondary, vocational, and non-formal education and increasing workforce skills.

- A possible compact still under development with **Tanzania** includes both water and energy components.

Depending on the final outcome of MCC's appropriations, one or more of these countries will likely need to be pushed off until funding becomes available in future fiscal years.

This will not be a welcome message to countries with completed compact proposals in hand, after we have pressed them so hard to enact tough reforms and invest serious efforts into developing their compact proposals.

Intangible Impact of Compacts

Success at MCC is measured not just in terms of the projects we are funding through our compacts and their expected results, but also in terms of the "intangible impact" our funding is already delivering. Because of MCC investments in our African partner countries, policy reforms are taking root, transparency and accountability are on the rise, and institutional and leadership capacity are deepening. For instance, Simon Pierre Adovelande, who is the coordinator of the Millennium Challenge Account team in Benin, described how MCC has "raised great expectations" among the Beninese, who want to see results from their compact. Because of this expectation, he went on to discuss the major role MCC plays in raising a new generation of leadership in Benin, and building capacity in the people administering the program by demanding accountability, integrity, and responsibility that lead to those anticipated results. Consider also Ghana's decision to host a forum this month in Accra of those African countries that are part of the MCC family in order to share peer-to-peer experiences and assist each other in the compact process. There is tremendous pride in owning the process, navigating through the particular challenges of compact development and implementation, and, in the end, celebrating successes as the fruits of their labors.

Challenges of Compact Implementation

While MCC can point to early compact results, the challenges of compact development and implementation cannot be overlooked. We identify four main challenges.

- First, it is challenging to develop world-class program proposals in a short time frame. The broad-based consultative process with all segments of the country, along with such technical elements as environmental, social, and gender assessments and implementation planning take time.
- Second, it is challenging for our partners to mobilize the capacity to develop their own proposals.
- Third, it is challenging to ramp up and staff in-country mechanisms, like the accountable entity and solid fiscal/procurement procedures, in order to responsibly manage compact funds.
- Fourth, it is challenging for the countries themselves to implement and continue to own their projects given the degree and extent of their existing capacity.

Addressing these challenges is what accounts for the slower than expected pace of disbursements. To expedite this, we are providing better guidance and capacity-building support to our partner countries up front, prior to compact approval. We are also working with them to develop detailed implementation schedules as part of the compact development process. In addition, we are asking our partner countries to staff up their accountable entities before entry into force and to prepare bidding documents for issuance immediately following entry into force for key Compact activities. We have a

fiduciary responsibility to American taxpayers to allocate MCC funding only as our partner countries are in a position to use our investments for stipulated development goals and are capable of delivering concrete, tangible impact on poor people.

Threshold Programs In Africa

In addition to compacts, six current MCC threshold agreements allow our African partner countries to improve their policy performance in the areas we measure to determine compact eligibility. MCC's threshold programs in Africa are primarily administered by USAID. Threshold assistance builds on and reinforces ongoing reform agendas in these countries. Such assistance primarily strengthens governance, especially efforts against corruption, but is also improving the business environment and supporting education for girls. Allow me to summarize each threshold program with our African partner countries.

Burkina Faso

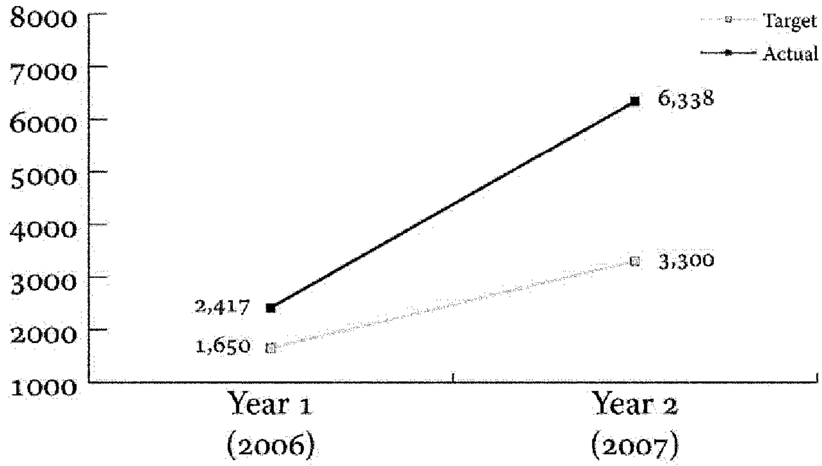
Burkina Faso's $12.9 million threshold program seeks to improve performance on girls' primary education completion rates. Specific interventions include: the construction of "girl-friendly" schools, teacher training, providing take-home dry rations to girls who maintain a 90 percent school attendance rate, and providing literacy training for mothers.

The importance of girls' education should not be underestimated. In Africa, fewer than 60 percent of girls complete primary school. In most other regions of the world – Asia, Latin America, the Middle East, Eastern Europe, etc. – between 90 percent and 95 percent of girls complete primary school. Research shows that investments in female education yield extremely high returns. Even one extra year of girls' education can:

- increase wages by as much as 20 percent;
- reduce infant mortality by as much as 10 percent;
- reduce fertility by as much as 10 percent;
- and increase the likelihood that one's children will attend school by as much as 6 percent.

And we're seeing good results so far, with girls' enrollment in MCC-funded schools during year two of the program at nearly double the program's projection.

Exhibit 10: Burkina Faso Threshold Program Supporting Girls' Education



Tanzania

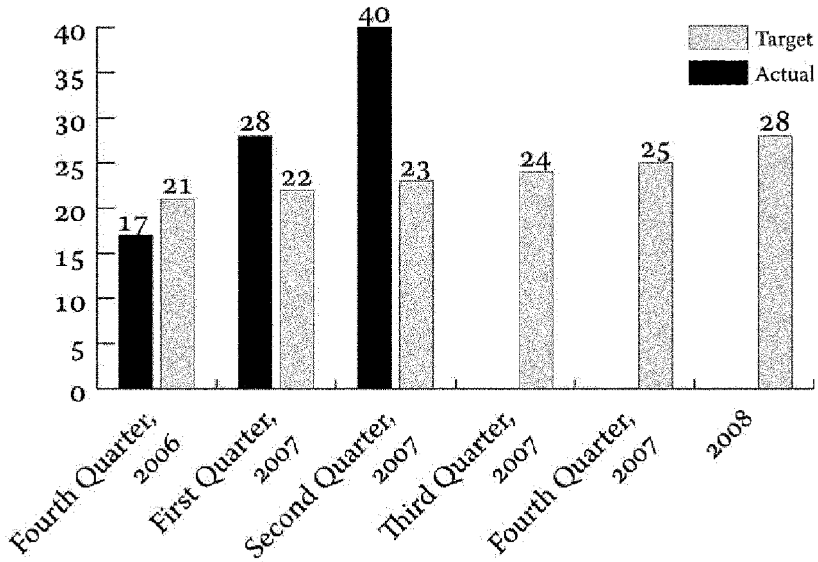
The $11.1 million Tanzania threshold program is focused on four specific anticorruption initiatives that include: building the nongovernmental sector's monitoring capacity; strengthening the rule of law for good governance; establishing a financial intelligence unit; and curbing corruption in public procurement.

Reducing corruption is an explicit goal of five of MCC's six African threshold programs. Corruption is identified by the World Bank as among the greatest obstacles to economic and social development. The African Union estimates that 25 percent of Africa's GDP is lost to corruption, and according to survey evidence, Africans pay between 10 percent and 20 percent of their annual income in bribes. These bribes range anywhere from $5 to $100, but for the poorest of the poor, even the smallest of bribes ($5-$10) can be the difference between receiving or not receiving access to essential services, like electricity and water.

Research shows that corruption is not a crime of passion; it's a crime of calculation. People tend to engage in corruption when the risks are low, the penalties are mild, and the rewards are significant. Therefore, a central goal of many of our threshold programs is to change the risk-reward calculus of corruption by creating an effective deterrent. Deterrence requires sending a signal that the existing culture of impunity will no longer be tolerated.

The Tanzania threshold program is providing critical training to law enforcement and the judiciary to strengthen the fight against corruption. In year one of the program, with MCC assistance, Tanzania has doubled the number of anticorruption investigations brought to court.

Exhibit 11: Tanzania Threshold Program Anti-Corruption Investigations Brought to Court*: Target vs. Actual



* Defined as "Number of investigations conducted by the Prevention of Corruption Bureau which result directly in the case being brought to court." This is a time-sample indicator and is not cumulative.

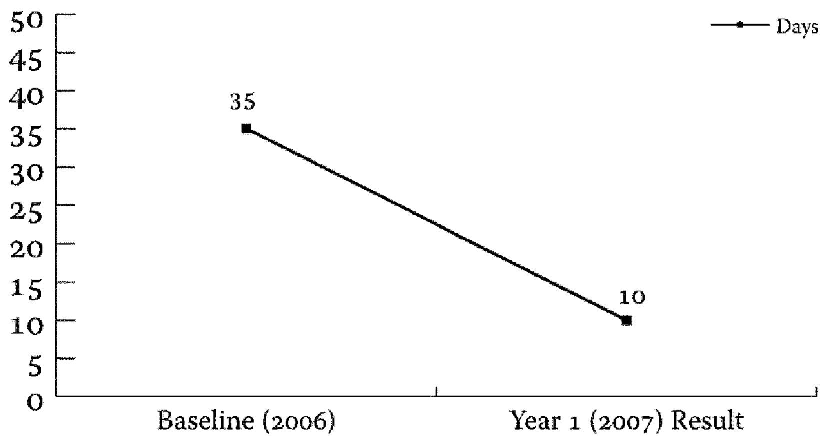
Zambia

The $24.3 million Zambia threshold program focuses on reducing corruption and improving government effectiveness. The program is funding three components aimed at reducing corruption within the public sector, strengthening border management of trade and streamlining business registration procedures.

The benefits of easing business registration are extremely significant. For example, last year, when the Government of Madagascar reduced the minimum capital requirement for new businesses by 80 percent, there was a 26 percent increase in the rate of new business registrations. This simple administrative reform, which was motivated in part by the Government of Madagascar's desire to remain MCA-eligible, has brought hundreds of firms into the formal economy where they can access credit and grow to their full potential.

The threshold program in Zambia helped reduce the number of days required to start a business from 35 to 10.

Exhibit 12: Zambia Threshold Program Number of Days to Register a Business



Malawi

Malawi is implementing fifteen specific interventions over the two-year period of its $20.9 million threshold program aimed at preventing corruption, enhancing oversight functions, and building enforcement and deterrence capacity. The interventions intend to create more effective legislative and judicial branches of government, provide support for lead anticorruption agencies, strengthen independent media coverage, and expand and intensify the work of civil society organizations.

A key objective of the Malawi threshold program is to build the capacity of Malawi's National Assembly to perform its oversight function. With threshold program support, all thirteen committees in the National Assembly were recently able to meet, which is a first in Malawi's history.

In March of this year, MCC signed threshold agreements with Kenya and Uganda.

Kenya

Kenya's $12.7 million threshold program aims to reduce opportunities for corruption in public governance. Specifically, the program will target corruption in public procurement and the delivery of health care.

Uganda

In Uganda, the $10.4 million threshold program intends to reduce corruption by improving public procurement and financial management practices, strengthening the

role of civil society, and building capacity to facilitate more effective follow-up of reported corrupt acts.

MCC Effect in Africa

While MCC investments in Africa through compacts and threshold agreements are beginning to bear fruit, we are also seeing significant reforms unfold ***even before*** we invest one U.S. tax dollar. Although MCC has only been in operation for three years, two independent studies by Harvard University and the Heritage Foundation, respectively, have found empirical evidence of a positive MCC effect on the reform efforts of developing countries. We can cite several examples of how the hope of securing MCC funding creates a powerful, motivating incentive for some countries to enact difficult reforms not just to meet our eligibility criteria but also to do what is best for their citizens.

- In Lesotho, the parliament enacted a law to confer equal legal status on married women so as to engage them fully in the economic life of the country. In keeping with our gender policy, MCC welcomes this groundbreaking policy reform as critical to the success of Lesotho's compact. A bipartisan resolution in the U.S. Senate recognized this tremendous achievement, applauding Lesotho as well as MCC's role in leveraging policy change for women's equality.

- Cameroon has expressed a strong interest in becoming MCC-eligible and unveiled an MCC-Cameroon website to document steps taken to comply with our eligibility criteria. These actions include removing 3,000 "ghost workers" from the government's payroll, referring 500 civil servants to a disciplinary council on fraud charges, and working to lift the secrecy surrounding the country's oil revenues.

- Liberian President Ellen Johnson-Sirleaf has also expressed great interest in adopting the reforms necessary to be selected to participate in MCC. Her administration is off to a strong start, rooting out corruption in the finance ministry, requiring senior government appointees to declare their financial assets, canceling all timber export contracts, and reviewing port handling concessions.

- In Djibouti, an interministerial committee has been established to devise reform strategies that address MCC selection criteria.

Conclusion

Through specific compact and threshold projects, and through policy reforms that are vital to sustainability, the Millennium Challenge Corporation is helping Africa help itself. MCC does not tell our African partners what they need; rather, our African partners tell us. They own the development process; they identify their priorities in the fight against poverty; they take on the challenging work of implementation; they are responsible for delivering tangible results to their citizens; and, they celebrate their emerging successes as the result of their labors, not MCC's efforts. Such profound responsibility holds African governments accountable not just to their own people but also to American

taxpayers. It allows MCC to invest in partner countries committed to the tough choices necessary to invest in themselves and to make the promise of poverty reduction through sustainable economic growth a transformative reality for the poor.

Thank you for your attention, Chairman Payne, Ranking Member Smith, and Members of the Subcommittee, and for convening this hearing and allowing us the important opportunity to discuss the Millennium Challenge Corporation's partnerships in Africa. I look forward to answering your questions.

LIST OF EXHIBITS

Mr. PAYNE. Let me begin. Exactly how much money has the MCC spent specifically in compact program implementation in Africa to date?

Mr. BENT. When you say implementation, you mean how much has been disbursed, or how much have we obligated?

Mr. PAYNE. How much has been disbursed, yes.

Mr. BENT. Probably something under $100 million. We frankly expect to do substantially more in the coming year. I would expect that figure to triple, quadruple.

Mr. PAYNE. Compact development has averaged about 21 months to 3 years in Africa, the ones that have been signed. Why do you believe it has taken so long? I know it as a new program. Was it a slowness in getting the corporation itself in place here at home? Was it the new concept that you had to explain the new program abroad? As we mentioned, we are not rushing to just throw money at problems, but I just wonder if there are specific obstacles and how we can go about eliminating them.

Mr. BENT. As you can imagine, we have spent a lot of time thinking about that. There are several reasons, to be honest. One is it did take a while as a new startup organization to get the staff on board, to decide how we were going to work with countries. That is part of it.

I am reminded of the difficulties that the Peace Corps had in its early days. People now look on it as a smoothly functioning machine, but in the early 1960s it took a few years to get going.

The second part of it is that this is a partnership. We expect the African countries or any of our partner countries to take the lead. We want them to do an extensive consultation process within their country. We want them to not just go to the planning ministry and dust off a few projects that they had been thinking about for a while. We want them to talk with all of the citizens of their country, with civil society, with farmers, with businessmen, you name it, everybody, so that what they present to us is a good program.

A third reason is that we really do take quite seriously our standard for the environment for economic sustainability. We require in the case of a lot of countries that want road projects, for example, to also come up with a program of road maintenance, how they will fund these things. We need to make sure what we invest in will be sustained after we are done.

All of these things take time. I think that from one perspective we have been moving very rapidly because what we have done is create compacts that have partnership, that have brought in many societies together the first kind of input from groups that previously hadn't been consulted. We are trying to deal with a whole range of environmental and relocation issues and ensuring that those tasks are done in a sustainable way.

So in some sense I don't take the low level of disbursements is a bad thing. I take it as, frankly, a very good thing because it shows we are trying to be prudent with what we have got.

Mr. PAYNE. At the rate that you are going, over the next 2 years, do you have an idea of what might be expended by the corporation?

Mr. BENT. Right. The typical program is a little bit of a bell curve. These are 5-year programs, and you have low disbursements in the first and second year, then ramps up very quickly in the

third and fourth year, and tails off in the fifth year. What we have seen is that the disbursements are lower in the first and second year, but they will pick up pace. We do have contracts signed, we do have accountable entities in place, we do have the fiscal and procurement mechanism in place, so I would expect that they will move along very sharply.

Mr. PAYNE. Finally, two short questions. Under the current law compacts are to be completed within 5 years, and so looking at the rate at which MCC is currently spending the money, there is a risk there will be large unexpended balances and incomplete projects when the project expires. So I wonder what happens to the funds that are allocated for these compacts if the compacts expire before the money is spent.

And do you think that there are any policies or procedures at MCC that have contributed to the lack of compact development and implementation, and are there some things perhaps internally that need to be worked on?

Mr. BENT. Sure. I am quite confident that as we move forward, the money will be spent. Our compact partners are depending on it. They are going to be signing contracts that will require that the money be there.

I think one of the lessons that we have learned is that across the board, if you are doing large infrastructure project, roads, ports, that only if you can repeal Murphy's Law can everything go exactly right. I think that what we have heard in some cases, that 5 years is too short to do some of those projects. One of the things that we will be seeking from Congress will be the possibility of doing longer compacts precisely so that we can be responsive to what our partners want.

What we are trying to do in the interim, however, is using what we have learned, and what we have learned is that you have to be very clear about your expectations up front. A lot of governments thought that we would just write them a check. We said, no, we want to see well-designed programs; we want to see you consult with your citizens; we want to make sure there really is economic growth attached to this. We want to know if what we are doing really will benefit the poorest in these countries. We want to make sure that environmental issues aren't there. We want to make sure that gender issues are treated correctly.

So many of the beneficiaries of these projects are, in fact, women who do a huge amount of the agriculture, have to carry the water, deal with the health and education issues of their families. We want to make sure all of this is taken into account.

That said, what we have also learned is that we have got a pretty astute group of partners, and, in fact, for 2 years running now we have held what we call MCC University in which we bring small numbers of the program partners to Washington, and they spend a huge amount of time talking among themselves about what really needs to be done.

We have also cut back on our legal documentation by about two-thirds. It started off as a large stack which probably would have pleased corporate lawyers in litigation in New York, but was very hard to explain to a lot of our partner countries.

We are giving more authority to our resident country directors so small issues don't have to all come back to Washington. We have simplified what we call an internal approvals matrix so one person is responsible for getting things done, not committees, not committees, not working groups.

All of these things, frankly, I think, are important. We intend to go further and do even more along these lines because I think the model is a great model, and what we have to do is to give it every chance of success.

Mr. PAYNE. Thank you very much.

Mr. Smith.

Mr. SMITH OF NEW JERSEY. Thank you very much, Mr. Chairman.

Mr. Bent, thank you for your testimony and for your leadership. Jut a couple of questions.

First, on corruption, which obviously is an issue that we have taken very seriously on this committee for many, many years, the language—the pass/fail indicator doesn't necessarily mean that there is corruption-free in country X, Y or Z, and I wonder if you might elaborate what steps you are taking to ensure corruption isn't involved here.

Secondly, on the participation of civil society, which was written right into the statute, if you could elaborate, if you would, on how well or poorly that is going, especially as relates to faith-based organizations. Are they included, are they at the table, are they participating to the fullest extent?

On implementation there is always concerns about whether or not these are being implemented properly. My understanding is that field offices are under way, but I don't know how many, where, how many people staff those offices.

And, finally, the GAO report in its report points out that MCC noted that disbursement rates do not fully capture its progress to date in part because these don't reflect MCC activity such as policy reform and capacity building, which is obviously a big set of issues. If you could maybe elaborate on that, because the GAO report didn't go into much depth on that.

Mr. BENT. Excellent questions. On corruption I don't need to elaborate what the costs are. The African Union estimates something like 25 percent of African GDP is lost through corruption. So the figures, frankly, are stunning. If those resources were available for countries and governments to use, it would make a considerable difference in the lives of the poor.

What we do on corruption is really in several areas. One, as you mentioned, it is a hard hurdle. We are not comparing countries with Switzerland or Finland, but do compare them among their peer group. What that means is we are not unrealistic about what they can do, but are firm in saying you must pass the corruption indicator.

Most of the threshold programs are, in fact, dealing with corruption, whether it is in health care in Kenya, or customs, or tax, or just the provision of daily services. You have to get to the essence of what causes corruption, which has probably as many different causes as there are human. Is it low salaries, overregulation, high tax rates, you name it. All of these things play a role.

Anticorruption programs only work, frankly, if the government itself is fully convinced it makes sense to do what it needs to do beyond training prosecutors, journalists, beyond training investigators. These things are important because you do need to have transparency, you do need to have standards, you do need to have government systems that are responsive to citizens.

But for us corruption is kind of—dealing with corruption is a sine quo non of getting a compact, but it is going to take years. In many of these countries I don't think any us of are under the illusion a 2-year threshold program will make a country clean, so I want to be clear about that.

Talking about faith-based organizations, civil society includes everybody, and we are as inclusive as we can possibly be. One of the programs in Lesotho, for example, Catholic Relief Services, manages a fair chunk of the health services. Ken Hackett is on our board. So of course we know full well that church groups and others provide a huge amount of social services, and we welcome all of that.

On implementation issues, that is what, frankly, keeps me up at night. It is how do you make sure the procurement goes well, how do you make sure that you have got full transparency, have we really talked to all the groups we need to talk to, what haven't we thought about that we need to think about.

I characterize the MCC as a learning institution. We try not to make the same mistake twice. We try to look around the corner a little bit, what is coming, what is happening, how can we help our partner countries do more, how can we look around at what other donors are doing and take advantage of what they are doing.

Policy reform, I am going to touch on it lightly because I think some of the witnesses who follow will be a little more emphatic. I think getting the right policies is hugely important. We have had several conversations, for example, with the President of Liberia, not an MCC country, not likely to become one in the near future, but she often refers to it as the indicators that we look at is the kind of roadmap that she is interested in following. I think the same thing is true of other inspirational leaders around the globe. What we are doing is giving a roadmap not in the sense of where do you need to go, but where are you now, and what is it that you need to look at to promote investments in people, promote economic freedom, promote ruling justly?

Mr. SMITH OF NEW JERSEY. Let me add to the critics who suggest that infrastructure emphasis may not be a good thing, I would say just the opposite. The only way the farmer gets his or her products to market is by having better roads. And while it may not be a neon lights-type issue that people gather around and say, "Wow, it is so basic, seemingly mundane, but so important," I congratulate you for focusing on infrastructure because that is how you build up a community, a country and a continent. So that is very visionary on your part, and I congratulate you on that.

Mr. BENT. Thank you.

Mr. PAYNE. Thank you.

Ms. Woolsey.

Ms. WOOLSEY. Thank you, Mr. Chairman.

Thank you, Mr. Bent.

I was looking at page 7, the chart on Benin of the income increase. This is the only country of the three charts you showed as examples that the income peaks in the 2013 and begins going down for 2014 and 2015. What do you know that we don't know?

Mr. BENT. To be honest, I am not sure why it goes down. Luckily I do have some experts who can probably give you a good answer for the record, if you don't mind.

Ms. WOOLSEY. I would appreciate that. Thank you.

[The information referred to follows:]

MILLENNIUM CHALLENGE CORPORATION

RODNEY G. BENT
DEPUTY CHIEF EXECUTIVE OFFICER

July 9, 2007

The Honorable Lynn Woolsey
2263 Rayburn House Office Building
Washington, DC 20515

Dear Congresswoman Woolsey:

Thank you for the excellent question about Benin at the June 28th hearing of the Subcommittee on Africa and Global Health. You asked why an exhibit on Benin's program reflected a slight decrease in GDP per capita between years 2014 and 2015, in contrast to the benefit streams shown for other countries.

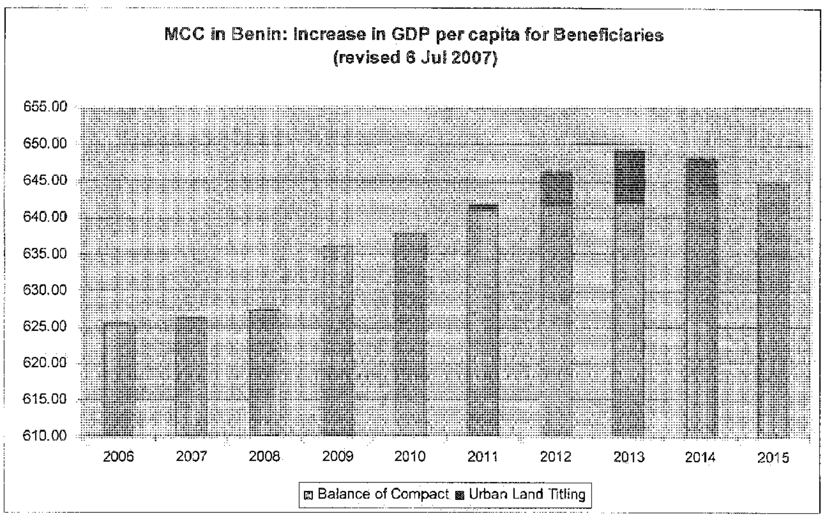
The primary reason for the projected decrease in GDP is that the urban land titling component of the Benin compact includes only an increase in value from one-time land sales assumed to occur five years after receiving the title. This analytical assumption produces a "bulge" in assumed benefits in the years 2011 to 2013, followed by a decline in those benefits in 2014 as sales are assumed to diminish, and zero benefits thereafter as the first round of transactions is completed.

It is important to note, however, that this assumption may in fact understate the benefits of this program component to the people of Benin. For example, our engagement may generate further rounds of land sales, additional land titling, and indirect gains to other beneficiaries (e.g., employees of small enterprises benefiting from land titles). Nevertheless, MCC chose not to incorporate these possible benefits of this program into its economic analysis as such effects would be both more speculative and beyond the immediate reach of the project.

Even with this lower assumption about benefits, we estimated that the overall economic rate of return of this program component for the period 2006 to 2020 will be approximately 23 percent for 713,000 beneficiaries. As a general policy, we use the lower ranges of estimated returns on MCC investments to ensure that we do not exaggerate the likely improvements in household revenue.

The Honorable Lynn Woolsey
July 9, 2007
Page 2

The chart below (revised to include more recent data) illustrates the impact of the urban land titling component on projected GDP growth in Benin.



MCC's Chief Executive Officer, John Danilovich, would welcome the opportunity to talk further with you and your colleagues. If I can provide more information, please let me know. I can be reached directly at 202-521-3852. Again, thank you for your question and the opportunity to respond in writing.

Sincerely,

Rodney Bent
Deputy Chief Executive Officer
Millennium Challenge Corporation

Ms. WOOLSEY. I know Mr. Smith said that it makes a lot of sense that we invest mostly in infrastructure, and, of course, if that money actually goes to the individuals that live in the country, then everybody wins all the way around. But is there a way we could expand the reach of those funds so that it actually does get to education and some of the other poverty-reduction programs?

Mr. BENT. That is a great question. Let me turn it around a little bit and say that when we do things like building roads, what we are doing—Mr. Smith talked about getting goods to market, but it also gets children to schools, gets people to health clinics, it gets them to houses of justice or courtrooms. So there are a lot of things well beyond commerce, if I can put it that way.

Ms. WOOLSEY. One may actually make a living building a road.

Mr. BENT. There is that, but it is the people who carry their goods. If you can cut half an hour—I drove the road, for example, from a pineapple farm in Kenya down to the airport, which is where goods are going to be distributed, and right now it takes about 5 hours. If the pineapple arrives in damaged condition, then it is no good.

If you can build a road so it only takes about 3 hours and don't need to have the refrigerated truck so small farms can compete, then I think that is a benefit there.

Your question, though, is really about social sectors, education and health. I am delighted, frankly, to be able to say that since we do these in partnership, and the ideas and the proposals come from the countries, the proposal in Lesotho is going to deal with health programs. There is a proposal that is under negotiation still in Namibia that will be over $100 million to deal with educational programs, secondary and tertiary. We have got in Burkina Faso a program to build 132 girl-friendly schools, which frankly has been so successful under the threshold program that the Burkinans want us to expand that program and do it under the compact as well.

So in some sense I think over the course of time you are going to see a more diverse set of projects be proposed by countries not only in Africa, but around the world, and you will see education, you will see health, you will see water programs, you will see probably roads and agriculture and some other things, but it will be a pretty wide choice.

Ms. WOOLSEY. Would it require additional funding, once the roads are completed?

Mr. BENT. A key part of what we are trying to do is make sure everything is sustainable. So some of the most contentious negotiations we have with our partner countries are over what they will do to maintain what we have built. So in the case of roads, it is not just the annual maintenance; we want to make sure it goes beyond that. We want to make sure there is assured funding, not the promise of assured funding. In a lot of cases this lead to pretty tricky parliamentary questions in which they say, how can we commit future Parliaments just because we are getting this money now, and pretty confident everybody on that side of the table is familiar with those issues?

But that is part of the discussion, and that is one reason why it has taken us longer to get some of these compacts up and going.

We would rather have a good compact done well than a hasty compact with money going God knows where.

Ms. WOOLSEY. Thank you.

Mr. PAYNE. Thank you.

Mr. Tancredo.

Mr. TANCREDO. Thank you, Mr. Chairman.

Mr. Bent, you are going to be able to go back and say, boy, this was a perfect example of the problems we have with Congress. On the one hand they are asking me to do this, and on the other hand demanding we do that, because I am—you see, it was my understanding, my perception of the Millennium Challenge Grants, that they were to primarily focus on individuals who would be given a microloan that would then be able to develop some sort of enterprise and in that way improve the lives—their lives and the lives of their family. And as I listened to this, it is apparent it is, of course, much more than that. And I do worry, I have to tell you, about the fact that all the things we have talked about, the infrastructural needs, which are absolutely key, I don't disagree with that, but, you know, providing educational support for certain countries.

I read in there, and I just referenced it, health care. I mean, doesn't that take us off in the wrong direction? I mean, how can we really—won't that have—over time I fear that evolves into this kind of project-oriented program again, just like all the other programs we are involved with, and why wouldn't that be the responsibility of USAID or some other organization? That seems that is what they are all about. Is it just because of the compact, and that is what people want in that case? And if so, why wouldn't we farm it out to UASID and concentrate on the one thing that I thought this program was designed to rest upon?

Mr. BENT. Great questions. I think that when I was at OMB, I was part of the design group that said what are we after, how do we distinguish this program from other existing aid programs, not just USAID, but World Bank. What I think distinguishes us is a couple of ways. One is that partnership aspect. Second is the selection criteria. Third is having proposals come as a result of consultation within the country.

One of the areas that I think we need to do more on, frankly, is explaining the benefits to the individuals. When I go to Central America and you go out to one of the poorer regions in El Salvador and say you are from the MCC, and you get farmers, grazers, mayors, local businessmen, the guy who owns the dry cleaning shop or the laundry shop, and they all come in, and their first question is how do they get the money.

What we have been trying to do is use local entities, use what we call an accountable entity in the country so that they are much closer to the ultimate beneficiary, the individual farmer, the microentrepreneur, the person who is trying to raise a crop, sometimes even raise a new crop that hasn't been tried in that area before.

I think we at the MCC need to do a better job, frankly, of showing how it does go down. It is not trickle down; it is being done directly, but being done through these accountable entities. We will have microfinance and credit programs in Ghana and a number of other countries. So, frankly, I want to able to take people to see the

benefits so they can go to a small hut and see the $200 loan and see the seamstress that bought the sewing machine and got working capital to buy textiles and see that local commerce in action itself.

Mr. TANCREDO. Let me ask you if you are familiar with a gentleman by the name of who Mohammad Yunis and his work in this area.

Mr. BENT. Somewhat.

Mr. TANCREDO. He has written a fascinating book, I think called *Lender to the World*, if I am not mistaken. At any rate, I would just suggest it because here is a private entrepreneur who has undertaken the exact same thing, to do exactly what you are saying, and has run into a lot of problems that perhaps you either have or will run into. And I am suggesting to you to look at someone doing it totally in the private sector, just him, an enormously wealthy guy who says, I am going to do these microloans because I believe it makes sense. And I wonder to what extent we can learn from him or he can learn from us.

Mr. BENT. One of my staff helpfully has sent me a note that says he did a presentation to us. I think that we have a new member of the board who was sworn in yesterday, and he came both to yesterday's board meeting and to our public outreach section this morning, and he said essentially, look, I have been in startup organizations; have you thought about this, what about that, how do you get the private sector?

I think our challenge, frankly, is to get the private sector more involved in what we are doing, and I don't mean just the U.S. private sector, I mean the private sector in these countries. We have costs and a number of days to start a business, and we press governments on this because we want to get rid of unnecessary regulation. We want to help sustain growth. The only way you can do that is to get really the private sector involved. But it has got to be involved with the people that we are talking about; it has got to be with the poorest in these countries.

Mr. TANCREDO. Thank you very much.

Thank you, Mr. Chairman.

Mr. PAYNE. Thank you very much.

Mr. Bent, since the other members have left, let me just ask another quick question or two. I just wonder what concrete steps is the MCC taking to increase the long-term capacity, as we have heard here, the technical and otherwise, of Africans to administer, to monitor, to implement projects as the countries start to develop, and we see they can go in a number of areas; road construction? What is being done on this to try to help in that capacity?

Mr. BENT. There are several things. I talked about MMCU. When we set up these accountable entities, frankly, they are all done by local staff. I mean, they are not MCC employees. We do, I think—to answer a question I got earlier, we do send one or two MCC staff to each of these countries so that we have got eyes and ears on the ground, but we have been very cognizant that when we hire—when the local entities hire these staff, that they might be diluting, if you will, stealing, the best staff from the government or from the private sector in that country. We don't want to do

that. We want to be—we want to add to that capacity. How you do that, I think, is difficult.

I think one of the areas we want to explore with our colleagues at USAID and the State Department is how can we use their programs to anticipate what the capacity needs are going to be 2, 3, 4 years down? What kind of training as engineers, urban planners, as businessmen can other programs give them so that when we get to the compact phase, we really have work out a way to bring the best people in, but more of them? That is one aspect of it.

Second, we spend a lot of time on monitoring and evaluation. We want to be able with some specificity and credibility to point to the impacts of our program. So we are spending time with ministries and with think tanks that have never been asked these kinds of questions before, and we are saying, look, we want to make sure you have the capacity to look at household income in that region, and if it is $240 now, will it really be $310 at the end of the compact? To do that, we have to train people. So we have been doing that.

In a lot of cases when we do our due diligence, which is really making sure that the project is feasible, that it meets environmental and economic criteria, we are in a lot of cases showing governments how to do it so that they may do it for a region, say, the northern section of Mozambique, but what we are really doing is teaching them how to do it for every region, not just the one we are working in. I think that will be a net plus.

Mr. PAYNE. Thank you.

We are joined by another member, and I don't know if you are prepared to ask questions, or would you want to wait for the next panel that is coming up?

Thank you very much. I appreciate your testimony. I did have some other questions regarding the transitional form, but what I will do is perhaps get some questions to you in writing. And I appreciate your testimony and look forward to continuing to work with you.

Mr. BENT. Thank you very much for the opportunity, and I would say we would certainly welcome your questions and be happy to meet with you at any time, or any member of the committee, because, frankly, we want you to understand what we are doing, and we want to know what your concerns are so we can be responsive.

Mr. PAYNE. Thank you very much.

We will now have the second panel.

Let me say a bit about them. Dr. David Gootnick is Director of International Affairs and Trade at the U.S. Government Accountability Office. Dr. Gootnick has been with the Government Accountability Office since 2001. His portfolio includes humanitarian aid, development assistance, economic assistance and global health. From 1994 to 2001, Dr. Gootnick served as Director of the Office of Medical Services at the United States Peace Corps. Prior to his time at the Peace Corps, he was a practicing physician and director of the University Health Services at New York University.

Our second witness is Dr. Steven Radelet, Senior Fellow at the Center for Global Development, who also serves as the economic advisor to the President and the Minister of Finance of Liberia. Dr. Radelet works on issues related to foreign aid, developing country

debt, economic growth, and trade between rich and poor countries. He was Deputy Assistant Secretary of the U.S. Treasury for Africa, the Middle East and Asia from January 2000 through June 2002. Prior to his government service, Dr. Radelet was a faculty member at Harvard University. Happy to have you with us.

Our final witness is Mr. Anthony Carroll, vice president of the Manchester Trade Limited, a position that he has served in since 1995. From 1989 to 1995, he was an international business attorney and consultant with the Washington office of Mitchell, Friedlander and Gittleman, and a succession of law firms.

Mr. Carroll has been a long-time advisor to the World Bank and the Services Group on Commercial Legal Reform in Africa and the establishment of special economic zones in Africa, the Middle East and Eastern Europe.

Welcome, gentlemen, and we will proceed with your testimony in the order in which I introduced you.

STATEMENT OF DAVID GOOTNICK, M.D., DIRECTOR, INTERNATIONAL AFFAIRS AND TRADE, U.S. GOVERNMENT ACCOUNTABILITY OFFICE

Dr. GOOTNICK. Mr. Chairman, members of the subcommittee, I am pleased to discuss GAO's recent work on progress and challenges faced by MCC compact assistance in Africa. I will focus on compact assistance today as opposed to the threshold program.

As you know, MCC has signed compacts with five partner African countries, and four of these have reached a stage where funds can be disbursed. Today I would like to discuss two issues: One, MCC's pace of developing compacts in Africa; and two, its progress in disbursing compact funds, two themes you brought up in your opening statement, Mr. Chairman.

Regarding MCC's pace of compact development, it has taken on average over 2 years for the first compacts in Africa to progress from eligibility to the point where compact funds can be disbursed. In addition, three of the six African countries that are eligible but have not reached an agreement with MCC have been in the compact development pipeline for 3 years. This is partially modified by the recent announcement on the Lesotho and Mozambique.

Regarding this pipeline, in addition to proposing projects, recipients design and ultimately run the administrative structures for implementing their programs. The compact is signed when MCC has approved the projects, completed its due diligence, and the country has established the systems for project implementation.

All recipients thus far have established a project implementation unit, project management unit that, among other things, the management unit is responsible for systems to ensure fiscal accountability and manage procurements.

Compact development does not operate on a fixed timetable or schedule; however, each year since inception MCC's rate of establishing new compacts has been slower than the rate projected by the Corporation's annual budget requests.

For fiscal 2006, MCC projected that it would establish between 8 and 16 compacts in that year. In 2007, they projected between 6 and 9. However, since initial eligibility, MCC has established

about four new compacts per year. As a result, MCC currently has over $2 billion in unobligated funds set aside for compacts.

On our second point, the rate of disbursements, MCC has also disbursed compact funds in Africa more slowly than it had planned. As of the most recent fiscal quarter, MCC disbursed 23 percent of their $114 million it had planned to provide to African compacts by that date.

Specifically, MCC has disbursed $14 million in Madagascar, $7.5 million in Cape Verde, $3 million in Benin and less than $1 million in Ghana. Additionally, less than one-third of these disbursements had actually reached a level of direct project-related spending.

According to MCC, its unexpectedly slow rates of disbursements reflect two factors: One, the need to maintain high standards for program accountability and sustainability; and, two, its initial overestimation of country capacity to meet those standards.

MCC reports it has taken steps to better match disbursements with its projections, including increased use of 609(g) funds before a compact is signed, simplifying compact documents, and streamlining the Washington approval for procurement and other processes. The slower-than-expected disbursements are most critical for Madagascar and Cape Verde, both in their second year of compact implementation. Last year we found the in-country structures for ensuring fiscal accountability and managing procurements to be at very early stages in these two countries, and that some of the necessary elements of these structures, for example, internal controls and the information systems for financial management, were not yet in place. Also these compacts did not fill key positions in their management structures until several months after entry into force.

As you know, MCC compacts are limited by statute to 5 years. Unless it can make disbursements more quickly, MCC may face large unexpended balances and incomplete projects when the compacts expire.

In summary, Mr. Chairman, MCC has built a due diligence process for evaluating compact proposals and begun to disburse project funds in Africa, but its initiation of compacts and disbursement of funds has been slower than expected. The number of compacts and disbursements do not capture all aspects of MCC's progress. I think Mr. Bent emphasized that important point.

However, the rates of compact development and disbursements of funds, in particular MCC's efforts to achieve both accountability and speed, will be key ongoing challenges in the coming years.

Mr. Chairman, this concludes my statement. I am happy to answer any of your questions.

[The prepared statement of Dr. Gootnick follows:]

United States Government Accountability Office

GAO

Testimony

Before the Subcommittee on Africa and Global Health, Committee on Foreign Affairs, House of Representatives

For Release on Delivery Expected at 2:30 p.m. EDT Thursday, June 28, 2007

MILLENNIUM CHALLENGE CORPORATION

Progress and Challenges with Compacts in Africa

Statement of David B. Gootnick, Director
International Affairs and Trade

G A O
Accountability * Integrity * Reliability

GAO-07-1049T

Mr. Chairman and Members of the Subcommittee:

Thank you for the opportunity to discuss GAO's findings and observations regarding the Millennium Challenge Corporation's (MCC) activities and progress in sub-Saharan Africa.[1]

In January 2004, Congress established MCC to administer the Millennium Challenge Account (MCA) for foreign assistance.[2] MCC's mission is to reduce poverty by supporting sustainable, transformative economic growth in partnership with developing countries that create and maintain sound policy environments. In countries where it funds projects or activities, MCC expects to raise incomes and lift thousands out of poverty. For fiscal years 2004 to 2007, MCC received appropriations of almost $6 billion, about $5.1 billion of which has been set aside for compact assistance.[3] MCC is currently working with 40 countries worldwide—either providing compact assistance or helping them become eligible for compact assistance[4]—and had obligated almost $3 billion for compacts with 11 of these countries as of May 2007.

In 2006, we reported on MCC's implementation of its first compacts—including compacts with Madagascar and Cape Verde—examining MCC's process for initiating the compacts and its management structures for implementing them.[5] Today I will discuss MCC's activities in sub-Saharan Africa (Africa), where

[1]Sub-Saharan Africa does not include the additional MCC-eligible country of Morocco.

[2]Millennium Challenge Act of 2003, Public Law 108-199, Division D, Title VI of the Consolidated Appropriations Act, 2004. Title II, Division D of this act established the MCA for MCC appropriations.

[3]An MCC compact is an agreement between the U.S. government, acting through MCC, and the government of a country eligible for MCC assistance. Other funds are used for MCC's threshold country program, administrative expenses, due diligence, monitoring and evaluation, and other costs.

[4]MCC uses criteria outlined in the Millennium Challenge Act to select countries as eligible for compact assistance. In general, MCC selects as eligible countries that are not barred from receiving U.S. assistance; that meet income criteria; and that also meet criteria for ruling justly, encouraging economic freedom, investing in people, and combating corruption.

[5]GAO, *Millennium Challenge Corporation: Compact Implementation Structures Are Being Established; Framework for Measuring Results Needs Improvement*, GAO-06-805 (Washington, D.C.: July 28, 2006). Previous GAO work summarized MCC's progress in its first year of operations and in making awards for compact assistance. See GAO, *Millennium Challenge Corporation: Progress Made on Key Challenges in First Year of Operations*, GAO-05-455T (Washington, D.C.: Apr. 26, 2005) and GAO-05-625T (Washington, D.C.: Apr. 27, 2005); *Analysis of Future Millennium Challenge Corporation Obligations*, GAO-06-466R (Washington, D.C.: Feb. 21, 2006).

MCC has signed compacts with five countries and identified another six countries as eligible for assistance. Specifically, I will discuss (1) the pace of MCC's initiation of compacts in Africa, (2) MCC projects and management structures in African countries with signed compacts, and (3) MCC's progress in disbursing compact funds.

To address these objectives, we updated our previous reports as needed. We updated and summarized MCC's progress in initiating and implementing programs in Africa, using public documents available from the MCC Web site and the results of our previous reporting. Our analysis of MCC's obligations for compact assistance to African countries is based on a budget analysis that we conducted in February 2007. Our analysis of MCC's disbursements is based on a budget analysis that we conducted in May 2007, comparing MCC data about actual and planned disbursements from July 2005 through March 2007. We conducted our work for this testimony in June 2007 in accordance with generally accepted government auditing standards. (See app. I for further details of our scope and methodology.)

Summary

The pace at which MCC has initiated compacts with African countries has varied. For the five signed compacts—with Madagascar, Cape Verde, Benin, Ghana, and Mali—progressing from eligibility selection to compact signature took between 12 and 31 months. Four of the compacts have entered into force—on average, about 5 months after compact signature. Of the six additional eligible African countries, none has reached compact signature, although three have been compact eligible for more than 3 years. In general, MCC's rate of establishing and obligating funds for new compacts has been slower than projected, with the result that MCC currently has more than $2 billion in unobligated funds set aside for compacts.

MCC's compact projects in Africa have emphasized transportation and agriculture and are to be implemented through country-run management structures. Approximately three-quarters of the compact funding in Africa has been budgeted for (1) transportation and other infrastructure projects (37 percent) and (2) agriculture and rural development projects (39 percent). To provide oversight and accountability and facilitate stakeholder involvement, the countries have established management structures with common components. The countries' management structures generally include a steering committee, responsible for compact oversight and results; a stakeholder committee, to advise the steering committee on compact implementation; and a management unit, principally responsible for compact management and implementation. As we reported in July 2006, Madagascar and Cape Verde—the first two African countries to sign compacts—did not fill key positions in their management

structures until several months after entry into force, and this delay may limit their achievement of compact objectives. According to MCC, key management officials for subsequent compacts with Benin and Ghana were in place around the time of entry into force. Key positions for Mali, whose compact has not entered into force, have not yet been filled.

MCC has disbursed compact funds in Africa more slowly than planned and, unless it can make future disbursements more quickly, may have large unexpended balances and uncompleted projects when the compacts expire. According to MCC, its unexpectedly slow rates of disbursement have primarily reflected its high standards for program accountability and sustainability as well as its initial overestimation of partner country capacity to meet these standards. As of March 31, 2007, MCC had disbursed $26 million (23 percent) of the $113.9 million it had planned to disburse by that date. The slower-than-expected disbursement is most critical for Madagascar and Cape Verde, both in their second year of compact implementation.

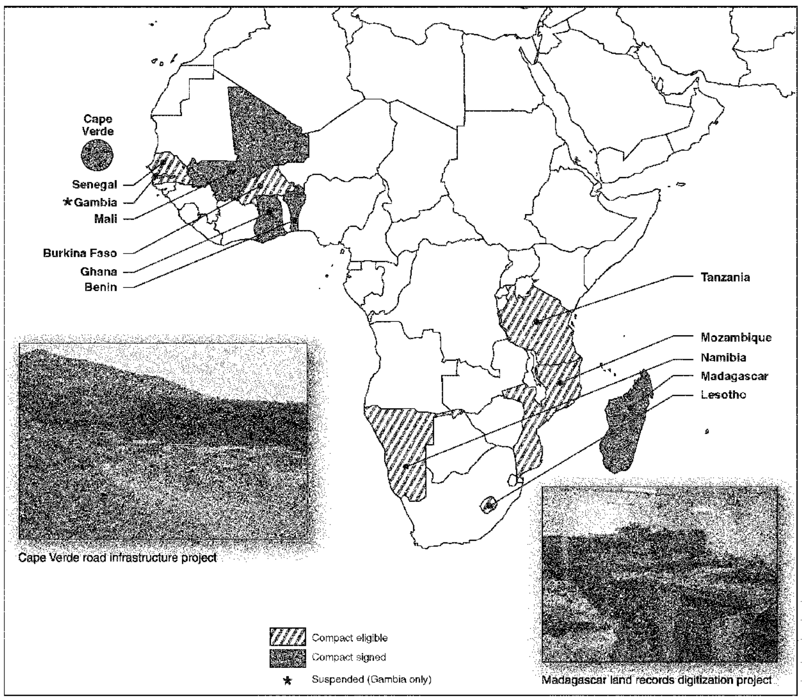
Background

The Millennium Challenge Act of 2003 requires MCC to select countries as eligible for MCA assistance each fiscal year.[6] Countries with per capita income at or below a set threshold may be selected as eligible if they meet MCC indicator criteria and are not statutorily barred from receiving U.S. assistance.[7] MCC has signed compacts with five countries in Africa and identified six other African countries as eligible for compact assistance (see fig. 1).

[6]The Millennium Challenge Act also authorizes a limited amount of assistance to certain candidate countries to help them become eligible for MCA assistance; this assistance is referred to as MCC's threshold program. Threshold candidate countries must (1) meet the requirements for MCA candidacy and (2) demonstrate a significant commitment to meeting the act's eligibility criteria but fail to meet those criteria. We have not analyzed MCC's work with threshold countries.

[7]MCC uses 16 indicators divided into three categories: Ruling Justly, Encouraging Economic Freedom, and Investing in People. To be eligible for MCA assistance, countries must score above the median relative to their peers on at least half of the indicators in each category and above the median on the indicator for combating corruption.

Figure 1: African Countries Receiving or Eligible for MCC Compact Assistance, as of June 2007

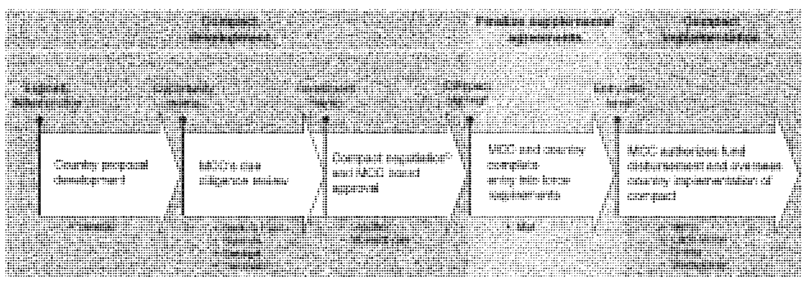


Sources: GAO, based on MCC information; map (Map Resources); photos: GAO.

Note: On June 16, 2006, MCC suspended Gambia from eligibility for assistance, citing a pattern of actions inconsistent with MCC's selection criteria, including documented evidence of human rights abuses and increased restrictions on political rights, civil liberties, and press freedom by the government, as well as worsening economic policies and anticorruption efforts.

After MCC selects a country as compact eligible, the country may begin a four-phase process that can lead to a compact's entry into force (see fig. 2).

Figure 2: Summary of MCC Compact Development and Implementation Process as of June 2007



Source: GAO analysis of MCC data.

[a]MCC must notify congressional appropriations committees 15 days prior to obligating funds.

[b]Compact negotiations begin after the MCC investment committee approves a consultation memorandum prepared by the MCC transaction team. The memorandum is based on the transaction team's determination that the country proposal has sufficient information to justify entering into negotiations with the country. MCC must consult with and report to the appropriate congressional committees 15 days prior to the start of compact negotiations.

[c]The MCC Board suspended Gambia's eligibility on June 16, 2006, citing a pattern of actions inconsistent with MCC's selection criteria.

Country proposal development. The eligible country is invited to submit a compact proposal, to be developed in consultation with members of civil society, including the private sector and nongovernmental organizations.

MCC due diligence review. In conducting due diligence, MCC evaluates the eligible country's proposal against MCC criteria to ensure that proposed programs will be effective and funds will be well used.

Compact negotiation and MCC approval. Following due diligence, MCC enters into compact negotiations with the eligible country. If compact negotiations are

successful, the MCC Board of Directors[8] may approve the compact, and MCC and the eligible country may sign it. Each signed compact includes a multiyear Financial Plan Summary that documents MCC's planned projects and disbursements by project in each compact year.

MCC and compact country complete entry-into-force requirements. MCC's compact with each country identifies supplemental agreements that MCC and the country's accountable entity must complete before the compact can enter into force.

After a compact enters into force, MCC may begin disbursements and the country may begin implementing projects. The Millennium Challenge Act stipulates that a compact may last no longer than 5 years and that MCC may have only one compact with a country at a time. The compacts stipulate that, with limited exceptions, all funds must be spent during the term of the compact period.[9]

MCC has obligated a total of about $1.5 billion as of May 2007 through its five compacts with African countries. The average size of these compacts is about $307 million, providing per capita assistance ranging from $6 to $222, or an average of $25 (see table 1).[10] Four of MCC's compacts—with Benin, Cape Verde, Ghana, and Madagascar—have entered into force. According to MCC, two additional compacts, with Lesotho and Mozambique, are being brought

[8]MCC is a government corporation, managed by a Chief Executive Officer (CEO) whom the President appoints with the advice and consent of the Senate, and is overseen by a Board of Directors. The Secretary of State serves as board chair, and the Secretary of the Treasury serves as vice-chair. Other board members are the U.S. Trade Representative, the Administrator of the U.S. Agency for International Development (USAID), the CEO of MCC, and up to four Senate-confirmed public members who are appointed by the President from lists of individuals submitted by congressional leadership.

[9]MCC compacts signed as of May 2007 contain language stipulating that all disbursements and redisbursements shall cease upon expiration, suspension, or termination of a compact provided that reasonable expenditures for goods, services, and works properly incurred under or in furtherance of these compacts before the compact term expires or is terminated may be paid from MCC funding. In addition, signed compacts contain language providing that when a compact expires or is terminated, any funding not disbursed by MCC is automatically released from any obligation in connection with that compact.

[10]Overall, MCC's 11 compacts as of May 2007 provide an average of $34 per capita.

before the MCC board at its meeting on June 27, 2007.[11] The proposed amounts of these compacts are $362 million and $507 million, respectively.

Table 1: MCC Compacts with African Countries, as of June 25, 2007

Country	Compact amount	Compact amount per capita (2004 population)
Madagascar	$109.8 million	$6
Cape Verde	$110.1 million	$222
Benin	$307.3 million	$38
Ghana	$547.0 million	$25
Mali	$460.8 million	$35
Total	**$1,535.0 million**	
Average	**$307.0 million**	**$25**

Source: GAO analysis of MCC data.

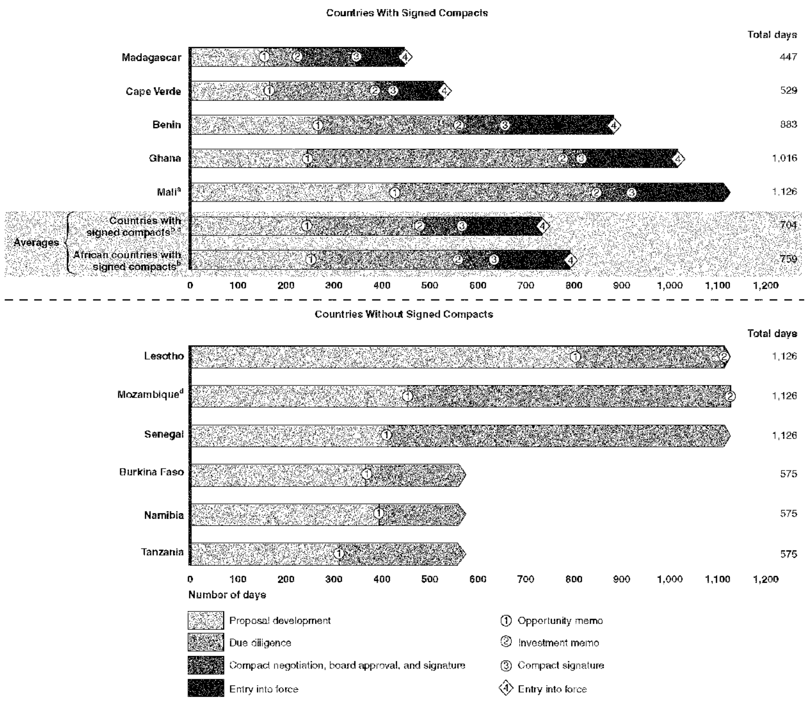
MCC's Pace of Compact Initiation in Africa Has Varied

The time involved in MCC's initiation of compacts with African countries has varied, with three countries remaining in the compact development process for more than 3 years without reaching compact signature. For the five African countries with signed compacts, progressing from eligibility selection to compact signature took from 347 to 921 days, or about 12 to 31 months—an average of 633 days, or about 21 months. For the four compacts that have entered into force, achieving entry into force took an average of 158 days, or about 5 months, from compact signature. For all MCC compacts, the process from eligibility to compact signature has taken an average of 567 days, or approximately 19 months, with an additional 167 days on average to entry into force. (See fig. 3.) MCC has not yet signed compacts with six additional African countries eligible for compact assistance—Burkina Faso, Lesotho, Mozambique, Namibia, Senegal, and Tanzania. MCC completed due diligence for Lesotho and Mozambique on May 24 and June 6, 2007, respectively. As of June 6, 2007, MCC was performing due diligence for the remaining four. Three of these six

[11] In February 2007, we estimated the rate of MCC's future obligations, including those in Africa, under two scenarios. In the first scenario, using MCC's projected amount and rate of compact awards as stated in its 2008 congressional budget justification ($485 million at 1.5 compacts per quarter), we estimated that MCC would obligate the balance of its 2004-2007 appropriations set aside for compact assistance ($2.1 billion) by the fourth quarter of 2007 and the $3 billion requested for 2008 by the fourth quarter of that year. In the second scenario, using MCC's historical amount and rate of compact awards ($271 million at about 1.2 compacts per quarter), we estimated that the corporation would obligate the balance of its 2004-2007 appropriations by the fourth quarter of 2008 and the $3 billion requested for 2008 by the fourth quarter of 2010.

countries—Lesotho, Mozambique, and Senegal—have been eligible since MCC's initial determination of eligible countries in May 2004.

Figure 3: Duration of Compact Development Process for Eligible African Countries with and without Signed Compacts, as of June 6, 2007



Source: GAO analysis of MCC data.

[a]As of June 6, 2007, the Mali compact had been signed for 205 days without entering into force.

[b]Average time to enter into force does not include countries that have not yet entered into force.

[c]Ten of the 11 countries with signed compacts became eligible during the first round of MCC country eligibility announcements in May 2004.

[d]According to MCC, it approved the Mozambique investment memo on June 6, 2007.

Compact development does not operate on a fixed timetable or schedule. However, during 2005-2007, MCC's actual rate of establishing new compacts was slower than the rate projected by the corporation's annual budget requests. As a result, MCC's obligations for compact assistance have been substantially less than projected. MCC currently has more than $2 billion in unobligated funds set aside for compacts.

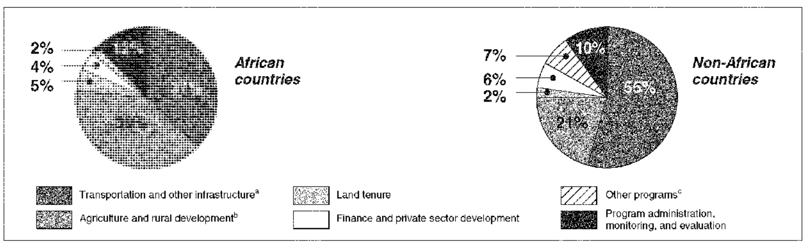
MCC Projects in Africa Emphasize Transportation and Agriculture, and Management Structures Have Been Established

About three-quarters of MCC's compact funding in Africa supports transportation and agriculture projects. To implement and oversee the projects, the countries with compacts in force have established management structures with similar components. For MCC's first two African compacts, key management officials were not in place until months after entry into force, but such positions were filled before, or shortly after, the two subsequent African compacts entered into force.

Approximately 76 percent of MCC compact funding has been budgeted for (1) transportation and other infrastructure projects and (2) agricultural and rural development projects. (See fig. 4.) Specifically, about 37 percent ($575.2 million) of compact funding in Africa is allocated to transportation and other infrastructure, and about 39 percent ($605.4 million) is allocated to agriculture and rural development. MCC's six non-African compacts likewise obligate about 76 percent for these two project categories, with 55 percent ($791.6 million) for transportation and other infrastructure and 21 percent ($299.1 million) for agriculture and rural development.

Figure 4: Types of MCC Compact Projects in African and Non-African Countries (dollars in millions)

		Transportation and other infrastructure	Agriculture and rural development	Land tenure	Finance and private sector development	Other programs	Program administration, monitoring, and evaluation	Total compact value
African countries	Madagascar	0	17.7	37.8	35.9	0	18.4	109.8
	Cape Verde	78.8	10.8	0	7.2	0	13.3	110.1
	Benin[a]	169.4	0	36	19.7	34.3	47.9	307.3
	Ghana	143.1	342.3	0	0	0	61.6	547.0
	Mali[a,b]	183.9	234.6	0	0	0	42.3	460.8
	Sub total	**575.2**	**605.4**	**73.8**	**62.8**	**34.3**	**183.5**	**1,535.0**
	Non-African countries	**791.6**	**299.1**	**26.5**	**87.5**	**95.1**	**148.1**	**1,447.8**
	Total	**$1,366.8**	**$904.5**	**$100.3**	**$150.3**	**$129.4**	**$331.6**	**$2,982.8**



Source: GAO analysis of MCC data.

[a]The Access to Markets Project in Benin is a major construction project at the Port of Cotonou and includes associated studies and institutional strengthening. The Mali compact includes the Bamako-Sénou Airport Improvement Project and an Industrial Park Project.

[b]The Irrigated Agriculture Project in Armenia includes the repair of irrigation infrastructure. The Alatona Irrigation Project in Mali includes planning and infrastructure, land allocation, and resettlement activities, among other items.

[c]Other programs include the Justice Program in Benin and the Human Development Project in El Salvador. The Benin program includes institutional strengthening and infrastructure components (construction of new courthouses). The El Salvador program includes Education and Training, and Community Development activities.

Examples of MCC infrastructure and agriculture projects in Africa include the following:

Infrastructure projects. Reconstruction of roads and the Port of Praia in Cape Verde, a major construction project at the Port of Cotonou in Benin, and the Bamako-Sénou Airport Improvement Project and an Industrial Park Project in Mali.

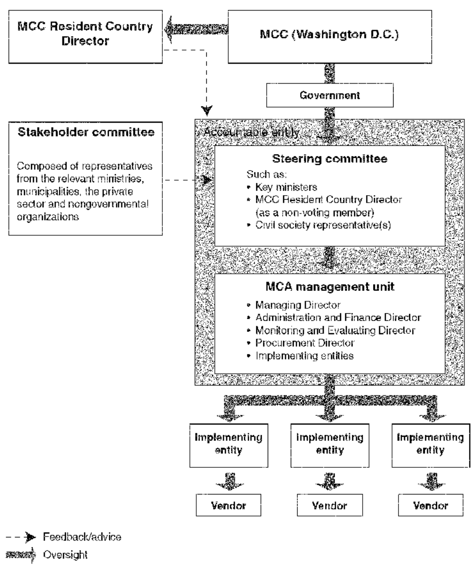
Agriculture projects. Agricultural business centers and technical assistance in Madagascar and training and institutional strengthening programs in Mali and Ghana.

To implement compact projects, MCC directly hires a resident country director and a small staff for each country to serve as MCC's public face and to manage its relationship with the compact country. However, MCC gives the compact countries authority to manage and oversee their compact programs using MCC funds.[12] Figure 5 shows the general structure that MCC's first three compact countries, including two in Africa, have established to provide oversight and management of their compact programs and to facilitate stakeholder input (see fig. 5).[13]

[12]According to MCC, three of MCC's five Resident Country Director positions in Africa are currently filled. The Benin position was filled from March 2006 to May 2007 and MCC is currently seeking to hire a replacement. The Ghana position has not yet been filled, but MCC expects the selected candidate to arrive in country in August 2007.

[13]The countries' oversight structures have most elements in common, but countries have the flexibility to design the structures to fit their needs.

Figure 5: MCC Compact Country Oversight and Management Structure in the First Three Compact Countries



Source: GAO, based on MCC data.

Note: This figure represents a composite of the Madagascar, Cape Verde, and Honduras oversight and management structures. However, in Honduras, stakeholder input is obtained through representatives on the steering committee, rather than through a stakeholder committee.

The three countries have generally included the following oversight and management entities in their structures:

The *steering committee* represents the country government and interfaces directly with MCC. The committee is ultimately responsible for the oversight and results

of the MCC compact, oversees management unit employees, and approves and signs off on key decisions and reporting to MCC.

In Madagascar and Cape Verde, *a stakeholder committee* meets periodically to advise and inform the steering committee regarding compact implementation and to serve as the official liaison between interested parties and the steering committee.

The *management unit* is directed by the steering committee and has principal responsibility for overall compact management and implementation, including financial management and procurement. The financial management and procurement functions may also be handled by an external fiscal agent or procurement agent. Together, the steering committee and the management unit form the "accountable entity."[14]

We reported in July 2006 that key compact management positions remained unfilled after the Madagascar and Cape Verde compacts entered into force; the two countries did not hire key officials until several months after their compacts' entry into force in July and October 2005, respectively. This incomplete staffing at entry into force may limit the countries' ability to achieve their compact objectives within the fixed time period of the compacts.[15] According to MCC, key positions at MCC's subsequent compacts with Benin and Ghana were filled prior to, or shortly after, entry into force. Key positions for the Mali compact, which has not entered into force, are not yet filled, but MCC expects to fill these positions in August 2007.

[14]MCC refers to the accountable entity by combining "MCA" and the country's name—for example, "MCA-Madagascar."

[15]In October 2005, after the signature of its first six compacts, MCC adopted a policy implementing the authority given it by section 609(g) of the Millennium Challenge Act of 2003 to make grants to facilitate the development and implementation of compacts. MCC's policy includes a provision where, if certain conditions are met, it may fund an eligible country's request for "management support payments" for salaries, rent, and equipment for the country's MCA technical team prior to compact signature.

MCC Has Not Achieved Its Planned Rate of Disbursements

MCC has disbursed compact funds in Africa more slowly than planned and, unless the rate of disbursements increases, may have large unexpended balances and uncompleted projects when the compacts expire.[16] To address this challenge, MCC officials report taking several steps to expedite program implementation and better match disbursements with projections.

As of March 31, 2007, MCC had disbursed $26 million in compact funds to four African countries—23 percent of the $113.9 million that it intended to disburse by that date.[17] (See table 2.)

Table 2: MCC Disbursements to African Countries through March 31, 2007

(Dollars in millions)

Country	Date compact entered into force	Prorated planned disbursements	Cumulative actual disbursements	Percentage of planned disbursements actually disbursed	Percentage of compact elapsed
Madagascar	Jul. 27, 2005	$59.40	$14.47	24	42
Cape Verde	Oct. 17, 2005	$30.07	$7.53	25	28
Benin	Oct. 6, 2006	$15.62	$3.45	22	8
Ghana	Feb. 16, 2007	$8.81	$0.74	8	2
Total		**$113.90**	**$26.19**	**23**	

Source: GAO analysis of MCC data.

Note: Planned disbursements are prorated on an annual basis.

As table 2 shows, MCC's actual disbursement of compact funds has fallen substantially behind its planned disbursement, most critically for its compacts with Madagascar and Cape Verde, both in the second year of implementation. MCC's disbursement for Madagascar by month 20 of the 4-year implementation accounted for 24 percent of the planned disbursement, and its disbursement for Cape Verde by month 17 of the 5-year implementation accounted for 25 percent of the planned disbursement. Our analysis of MCC's overall compact disbursements suggests that unless it increases the rate of compact assistance disbursements in Africa and elsewhere, MCC could have significant obligated but undisbursed balances when the compacts expire. This implies that some Africa projects may not be completed by the end of the current compacts. If this

[16]MCC disbursements provide funds to the accountable entity of a compact country. The accountable entity then redisburses funds for program activities.

[17]Overall, through March 2007, MCC had disbursed 26 percent of the $257.6 million that it had planned to disburse for the nine compacts that had entered into force by that date.

occurs, MCC will miss opportunities to achieve its mission of poverty reduction through economic growth in compact countries.

According to MCC, its unexpectedly slow rates of disbursement have primarily reflected two factors: the need to maintain high standards for program accountability and sustainability, and its initial overestimation of partner country capacity to meet these standards. The countries' management structures are intended to ensure fiscal accountability; however, at the time of our 2006 report, some required elements of these procurement and fiscal accountability structures in Cape Verde and Madagascar were not yet in place. As of May 2007, MCC did not have mechanisms in place to address significant delays in its planned disbursements. However, MCC reports taking a number of steps to expedite program implementation and better match disbursements with projections, such as providing better guidance on compact development and implementation and improving its initial analysis of country capacity. MCC noted that disbursement rates do not fully capture its progress to date, in part because these rates do not reflect MCC activities such as policy reform and capacity building.

Mr. Chairman, this concludes my statement. I will be happy to answer any questions you or members of the subcommittee may have.

GAO Contacts and Staff Acknowledgments

For questions regarding this testimony, please contact David B. Gootnick at (202) 512-3149. Other key contributors to this statement were Emil Friberg (Assistant Director), Tracy Guerrero, Reid Lowe, Mike Rohrback, Mona Sehgal, and Michael Simon. David Dornisch, C. Etana Finkler, Ernie Jackson, Marc Molino, and Jena Sinkfield provided technical assistance.

Appendix I: Objectives, Scope, and Methodology

This testimony discusses (1) the pace of the Millennium Challenge Corporation's (MCC) initiation of compacts in sub-Saharan Africa (Africa), (2) MCC's projects and management structures in African countries with signed compacts, and (3) MCC's progress in disbursing compact funds.

To determine the status of MCC's initiation of compacts in Africa, we determined the length of the compact development process based on our previous reporting and MCC's status reports on eligible countries, which include the dates these countries completed key milestones in the process. We quantified the duration of the development process for MCC's individual compacts as well as the average length of the process for its compacts in African and non-African countries.

To describe MCC's compact projects, we relied primarily on our previous reporting on MCC,[1] updating it to include more recent compacts. We identified compact project types across broad categories and calculated total funding for each category to determine the general focus of MCC compact assistance in African and non-African countries. In describing MCC's management structures, we summarized our previous reporting on MCC's first three compacts, including those for two countries in Africa. We also summarized an MCC report on the status of its management staffing in Africa.

To analyze the pace of MCC's disbursements for the countries with compacts in force, we compared MCC data for actual and planned disbursements from July 2005 through March 2007. For this analysis, we used MCC's assumption that compact funds are disbursed evenly throughout the compact implementation year. Because MCC's compacts are at varying stages of implementation, we prorated planned disbursements on an annual basis for each country based on the number of months the compact was in force.[2]

MCC provided technical comments on a draft of this testimony and we have incorporated their comments as appropriate.

We conducted our work for this testimony during June 2007 in accordance with generally accepted government auditing standards. We also followed generally accepted government auditing standards for the published GAO reports on which this testimony is partly based.

[1]GAO-06-805

[2]In practice, MCC approves disbursements on a quarterly basis and disburses compact funds in monthly payments according to the terms of the quarterly approval.

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Mr. PAYNE. Thank you very much. Mr. Radelet.

STATEMENT OF STEVEN RADELET, PH.D., SENIOR FELLOW, CENTER FOR GLOBAL DEVELOPMENT

Mr. RADELET. Thank you very much, Chairman Payne and other members of the subcommittee, thank you for inviting me to come here today. The debates about the MCA must be understood in the context of broader debates about foreign aid effectiveness and our foreign policy goals that we are trying to receive with foreign assistance.

The MCA was born in response to some widely held criticisms of foreign assistance that we chose the wrong countries; we were too politicized in how we provided our aid, that there was too little country participation in deciding what we did and too much bureaucracy in the aid programs.

It was in this context that the MCC was designed with key principles of selecting countries that were strongly committed to good governance and economic policies, of giving those countries much more say in determining the priorities and designing programs, and in providing greater funding for those programs and holding those programs accountable.

I think as we discuss these issues that have been raised today, it is important to think of the broad context of these debates and decisions about what the MCC should be doing, where it should be operating, what it shouldn't be doing. I think they have to be seen in the broader context of what's going on at USAID, the F process, PEPFAR and other aspects of our foreign aid reform process.

The broader efforts are still preliminary, they are still partial and in some ways on the right track and other ways on the wrong track. As we look forward and think about what the MCC should be doing I think we have to think about it in that broader context.

I want to talk about three particular critiques of the MCA that I think are off base and three critiques that we often hear that I think have some validity. One critique I think we hear that I believe is off base is that the MCC funds the wrong countries, it chooses successful countries rather than those in need. I think the criticism is off base. Most of the MCC countries are very poor, they recently introduced reforms that give them the potential for great success, but they are hardly successful at this point and are the right countries to be supported.

It is true there are many other countries with big needs, but these have poor governance and the MCA model of providing greater flexibility for countries to choose what they are doing and provide greater funds isn't really appropriate in countries with weak governance, it is in poor countries that are well governed.

The second criticism which I think is off base: The MCA funds the wrong substantive areas. One of the great strengths of the MCA is the country ownership that it provides to recipient countries. Here I want to echo what Congressman Royce said earlier. Some say the MCC should focus more of its programs on health and education, less on infrastructure, but it is not up to the MCC to decide. Appropriately it is policymakers and civil society in the recipient countries that are the right ones to decide whether the

highest priority for fighting poverty should be health, education, infrastructure, water or whatever it may be.

Those of us in this room and those members as well are not best placed to decide the highest priority and the MCA is right to give voice to the recipient countries themselves. There is something deeply unsettling about commentators in Washington thinking they are better placed to know what the highest priorities are and the greatest needs.

Also there are good reasons countries choose infrastructure, it is one of the most powerful ways to reduce rural poverty in Africa. The evidence behind that is overwhelming. Africa has very little infrastructure and farmers cannot get their produce to markets, people who live in rural areas can't buy things, they don't have access to markets, it takes days to get goods, there is not job creation in rural markets, roads and energy supplies are critical to reduce poverty and most donors don't do it.

So if I was the head of a government in Africa and I had the flexibility to choose, I would choose what is important and underfunded—infrastructure and agriculture would be on the top of my list.

The third critique is the MCC can't spend money that has already been appropriated. Six billion dollars has been appropriated, but most of that is already tied up in funds in compacts that have already been signed and the rest will be committed in the months ahead. As Mr. Gootnick pointed out, there is still $2 billion uncommitted in the next few months as the compacts with Mozambique and Lesotho and Morocco are signed later this year, most of that money will be committed.

This issue comes from the unusual nature that the MCC money is fully appropriated 5 years in advance so there is always, always going to be the visual problem that much more money has been committed than is actually spent because we committed 5 years in advance. Unless Congress changes that, that stricture, this issue is always going to be there so it is a result really of the way the appropriations are set up.

Let me turn to three concerns with more validity. One is that MCC is not delivering as quickly as in business. As Mr. Gootnick pointed out, I don't have to repeat the numbers, and Chairman Payne made the same points, all of us believe the MCC should be progressing more quickly than it has over the last 3½ years. As Mr. Bent said, some had to do with start-up problems, which could be expected. Some has to do with problems in constraints in recipient countries. But some problems are within the MCC itself and that needs to be looked at. They have made some progress in the recent months and made some changes as noted. We have to see how much this speeds up the process, but I think the disbursement rates are very low considering we are in some cases 2 years into compacts.

The MCC should target the poorest countries and not the lower middle income countries. The MCC has a separate window for lower middle income countries and I think that is a mistake. We should be devoting the resources to the poorest countries. The other countries have access from international capital markets, borrowing that they can do from their own savings and domestic re-

sources, the poorest countries are the ones that need it. And I think especially as we face tighter budget constraints, the idea that the MCC finances lower middle income countries and might have to cut off some poor countries, I think we need to revisit that.

The third criticism which I think has some validity is that the overall effectiveness of the MCC is constrained by the restriction that there can only be one compact per 5 years. We are worried about the slow disbursement rates today. One problem is that we ask countries to put a plan together for 5 years and it is their only bite at the apple, it is their only chance for 5 years. So all of the incentives are for them to build something big and complicated that you can't see the tail end of.

If instead we allowed countries eligible to have one compact per year, the incentives would be to do something smaller, less complicated and next year we could do phase 2 of a continuation or something separate, but I think we would have much less complicated projects where we could move quickly and we wouldn't have to do everything under the sun in one place.

To summarize, 4 points that I think going forward are important: First, the MCC should thoroughly analyze its processes and procedures that are impeding progress as we have talked about; second, I think Congress does need to reaffirm commitment to a strong MCA that focuses on the poorest countries—the well-governed countries—and reaffirm the principle of country ownership and allowing well governed countries to choose themselves their priorities; third, I think the MCC should focus on the low income countries; and fourth, Congress should allow the MCC to negotiate concurrent compacts in eligible countries and not one over a 5-year period.

Thank you very much, all of the members, for your attention.

[The prepared statement of Mr. Radelet follows:]

PREPARED STATEMENT OF STEVEN RADELET, PH.D., SENIOR FELLOW, CENTER FOR GLOBAL DEVELOPMENT

I. INTRODUCTION

Chairman Payne and Ranking Member Smith, distinguished members of the subcommittee, I am honored that you have invited me to offer some perspectives on the promises and progress of the Millennium Challenge Account.

This month the Millennium Challenge Account is three and a half years old. Conceived and announced by President Bush in 2002, the MCA was formally established in January 2004. In my testimony today I will begin by reflecting upon the genesis of the MCA, what it has accomplished to date, how it fits into the broader context of US foreign assistance. I will then examine three common critiques of the MCA that I believe are off-base: that it selects the wrong countries, it focuses on the wrong substantive areas, and that it cannot spend the funds that have already been appropriated. I will then turn to three critiques that have more merit: that the pace of implementation has been too slow, that it should focus on low-income countries and not middle income countries, and that the restriction limiting countries to one five-year compact slows progress and adds to program complexity. I will conclude by reflecting on what more needs to be done to realize the MCC's potential for bringing hope and prosperity to the world's poorest well-governed countries, many of which are in Africa.

II. THE HISTORICAL CONTEXT: STRONG CRITICISMS AND LOW LEVELS OF AID

The design, promise, and progress of the MCA can only be fully understood in the context of broader debates about and reform efforts of US foreign assistance programs. After the end of the Cold War, US foreign assistance programs came under heavy criticism, and funding dropped sharply in the early 1990s before starting to

rebound in 1998. Many of the criticism raised then continue to resonate today. US foreign assistance programs are a hodge-podge of uncoordinated initiatives from multiple institutions without a coherent guiding strategy. Much of our aid is wasted on countries with governments that are not serious about development and that cannot use it well. Our aid programs are often politicized and aimed at achieving short-term political goals rather than long-term development. Aid programs are subject to heavy bureaucracy that ensures that some funds never get close to their intended recipients. Aid flows are heavily earmarked and subject to myriad directives, procedural rules, and restrictions that add significantly to administrative costs and slow the delivery process. Moreover, there is little accountability for achieving results. Monitoring and evaluation systems are weak and tend to focus on whether funds are spent where they were supposed to be, rather than whether programs achieved their intended objectives.

It is important to recognize that often these criticisms are overstated and miss the fact that many programs have been successful. US foreign assistance was central to supporting the Green Revolution that provided the foundation for Asia's economic miracle; for eliminating small pox and substantially reducing polio, river blindness, maternal mortality and childhood diarrheal diseases; for helping to secure peace in countries such as Liberia and Sierra Leone; and for supporting sustained economic growth in Korea, Taiwan, Botswana, and more recently Mozambique, Tanzania, Ghana, and several other countries. US foreign assistance deserves more credit than it usually receives. Nevertheless, there is little doubt, even among supporters, that US foreign assistance programs can be significantly strengthened.

Debates about foreign assistance began to change in the late 1990s and the early part of this decade. The combination of the events of September 11, 2001, widespread criticisms about the small size of US aid flows, and growing concern about global poverty, debt burdens, and diseases such as HIV/AIDS led to growing recognition of the importance of strong foreign assistance programs as part of our broader foreign policy and national security approach.

Nevertheless, the MCA was designed and introduced in response to the debates about and criticism of aid. In short, it was aimed at partially resolving the twin problems of both the small levels of US foreign assistance and the broad concerns about its lack of effectiveness.

III. THE MCA CONCEPT

The MCA builds on America's core values of generosity, commitment to progress and poverty reduction, and the expectation of clear results. Its promise of success was rooted in six key guiding principles that set it apart from most other foreign aid programs:

- Clearly focus assistance on promoting economic growth and poverty reduction, rather than supporting diplomatic and political partners or achieving other goals that can be supported with other programs. The sharper focus goals should help ensure that both recipient countries and the American public get better outcomes.
- Select a small number of recipient countries that have demonstrated a strong commitment to sound development policies, helping make aid funds more effective.
- Allow recipient countries to set priorities and design programs through a broad consultative process, engendering stronger commitment for success by recipients, and ensuring that programs actually are aimed at meeting the most urgent local needs.
- Keep the bureaucracy to a minimum, avoiding the large administrative structure, heavy regulation, and overlapping congressional directives that bedevil other aid programs.
- Provide recipients with sums of money large enough to make a real difference on the ground and provide strong incentives for success.
- Hold recipients much more accountable for achieving results, including being willing to increase funding for successful programs, reduce it for weaker programs, and terminate funding if necessary.

These principles hold out the promise of making US foreign assistance much more effective in MCA countries. But it is important to recognize that the MCA is only part of what is necessary to make broader US foreign assistance more effective. The MCA cannot and should not be forced to substitute for other programs or achieve other objectives, such as providing assistance to countries that do not have a demonstrated record of commitment to strong development policies. It must be seen as

part of a broader whole, working in tandem with other bilateral and multilateral programs aimed at achieving complementary goals.

From a broader perspective, looking back, it is now clear that the administration should have introduced the MCA as part of deeper reforms of our foreign assistance programs. It is now undertaking those reforms, only belatedly and still only partially, through the so-called "F process." But even these reforms will not be sufficient to meet today's challenges. To make our foreign assistance programs truly effective, more substantial reforms are necessary to bring all foreign assistance programs under one independent authority, re-write the foreign assistance act of 1961, and develop clear strategies and coordination mechanisms for our assistance programs. Part of that strategy would recognize the need for delivering aid programs in different ways across different developing countries, depending to a large extent on recipient countries' capacity to deliver effective programs. But even in the context of these broader reforms, the need for a program like the MCA would clearly emerge to deliver significant amounts of assistance to poor but well governed countries that are committed to effective development programs.

IV. INITIAL PROGRESS TO DATE

The MCA has made significant progress in several key areas. First, its country selection process has worked relatively well. The MCC, by and large, has selected countries based on the merits of their commitment to strong policies, and not on political criteria. Its methodology of selecting countries based on publicly available data generated by independent sources has provided credibility and generated interest among other donors. Most importantly, it has created a strong "MCC Effect" in which the requirement to pass specified quantitative indicators has created the incentives for potential recipients to more carefully track the data and introduce the policy changes needed to meet the requirements. There are examples from all around the world of the incentive effect of the MCA selection process.

Second, the MCC has moved to the frontier of facilitating broad participation among government, non-government, civil society, and private sector representatives in determining priorities and designing projects and programs. Many aid agencies talk about a participatory approach, but the MCC has been on the forefront of actually making it happen. It is far ahead of any other US foreign assistance agency in facilitating broad participation among the public in its programs.

Third, much of the focus of its early efforts has been in Africa. If compacts with Lesotho and Mozambique are signed as planned in the coming months, 7 of 13 compacts will be with African countries, representing over 60 percent of all MCC funding. Of these amounts, 70 percent of funding in Africa will be aimed at agriculture, rural development, transportation, and other infrastructure. These areas fill huge unmet needs in these countries and are central to the process of economic growth and poverty reduction. Beyond the basic numbers, the "MCC Effect" has led to important policy changes in many countries, and the early stages of compact implementation has led to the creation of increased capacity for project oversight and management. While less progress has been achieved at this point than had been hoped for, these early steps provide an important foundation for continued progress in the coming years.

V. ADDRESSING OFF-BASE AND ON-TARGET CRITIQUES

The conceptual model of the MCA has received widespread support. However, the way in which that concept has translated into implementation has received mixed reviews. Some of the concerns raised are valid, and others less so. In my testimony today I will review six frequently-cited concerns about the MCA, three of which I believe are off-base, and three of which I believe are more-or-less on target.

Three concerns about the MCA that are off-base:

1. The MCA funds the wrong countries—it focuses on successful countries rather than those most in need.

This criticism comes in two parts: that MCA countries are successful and do not need assistance, or that the MCA misses out on countries that most need development assistance. The idea that MCA countries do not need assistance is unfounded (with the exception of middle income countries, a subject I return to below. Most MCA countries have very low incomes, widespread poverty and a history of slow economic growth. What distinguishes these countries is a relatively recent move toward accountable governments with strong development policies. Countries such as Mozambique, Ghana, Senegal and Tanzania are not yet success stories, but their shift toward democracy and strong economic and social policies give them the potential

for rapid growth. They therefore are exactly the right countries to which the US should focus substantial amounts of foreign assistance.

Others argue that the MCA misses the countries that are most in need. While I agree that there is an urgent need for US policy to address the needs of weak and fragile states—a category which covers the majority of the developing world—I believe it would be inappropriate for the MCC to provide funding for these countries, and that other programs are more appropriate channels for assistance. The MCA model relies heavily on mission and country selectivity, country ownership and providing recipient countries substantial flexibility in establishing priorities and designing programs. This approach would not be appropriate in countries with weaker, less accountable governments with weaker commitment to strong development policies.

The MCA was not created to displace existing US foreign assistance programs, notably those within USAID. It was created as a small, but innovative, model to test the idea that aid is more effective in well governed countries. The success of the MCA model rests in its ability to stay focused on one mission—poverty reduction through growth—and one set of countries—poor but well governed.

2. The MCA funds the wrong substantive areas—too much infrastructure, not enough social investments.

There are two problems with this criticism. First and foremost, the MCC does not choose the areas of funding, the countries themselves do. One of the great strengths of the MCA is that it recognizes that policymakers and citizens in well-governed countries are the right people to decide the most important priorities to fight poverty in their own countries through a broad consultative process. There is something deeply unsettling about commentators in Washington questioning the results of this process and declaring that they know better than African policymakers what their greatest needs are for fighting poverty. I believe that in well-governed countries with a demonstrated commitment to development, it is appropriate for us to defer to the judgments of policymakers in these countries but hold them fully accountable for achieving results, including terminating funding for lack of progress.

Second, from an economic development point of view, there are good reasons why many countries are choosing to finance infrastructure projects. Rural roads and similar infrastructure projects are central to poverty reduction and the effective delivery of health and education services, but most other donors do not fund these initiatives. From the perspective of recipient country policymakers, they have several alternatives for funding health and education programs, but few donors for infrastructure. In many cases, policymakers see infrastructure as an essential component of spurring growth and reducing poverty and are thrilled to be able to seek funding for a sector that has been massively under-funded for years.

Across Africa investments in physical infrastructure are central to raising productivity, increasing rural incomes, fighting poverty and achieving long-term growth. Such investment is especially critical in rural areas for at least two reasons: first, because ample potential remains for raising rural productivity and employment, thereby contributing significantly raising rural incomes, and, second, because rural areas are home to the majority of the poor in these countries. In particular, investments in rural infrastructure can lead to higher farm and non-farm productivity, employment and income opportunities, and increased availability of wage goods, thereby reducing poverty by raising income and consumption. Rural roads are also central for facilitating delivery of health and education services—without decent roads, people cannot get to clinics and schools.

In terms of need, there is a large infrastructure deficit in Africa, both in terms of access and quality, in all the sectors—transport, energy, ICT and water. According to the African Development Bank, only 30 percent of Africans have access to reasonable transportation, compared to over 75 percent for other lower income countries. Access to water and sanitation is about 65 percent compared to 80 percent for other LICs; access to roads is 34 percent compared to 50 percent for other LICs, while the penetration rate for telecommunication is less than 13 percent compared to 40 percent in other LICs. This situation has contributed directly to Africa's low rates of economic growth, reduced share of world trade, lack of international competitiveness, and poor delivery of social services for the rural population.

3. The MCA can't spend the money it already has.

Today, almost 60 percent of the $6 billion that has been *appropriated* for the MCA and available for compact and threshold funding has been committed. Critics of the MCA's ability to spend the money it already has focuses on the low disbursement rate—as of May 2007, only $70.8 million had been disbursed to compact and threshold programs, only a fraction of the amount appropriated.

However, this comparison is not an accurate reflection of unspent funds. The MCC's authorizing legislation requires that all of the funding requires for a five-year compact be appropriated and available at the time of compact signing. As a result, an apparent low disbursement rate is guaranteed, and appropriated funds will always be far larger than those actually disbursed in the early years of a compact.

Closer analysis reveals that because of the pipeline of new compacts scheduled to be signed in the coming months, the MCC is likely to commit the remainder of FY07 monies and could commit the majority of its $3 billion FY08 request. Much of these funds would go to African countries that make up the bulk of the near-term pipeline.

From FY04 to FY07, over $6 billion has been appropriated for the MCA, of which $5.6 billion is available for compact and threshold funding. To date, $3.3 billion has been committed to 11 compacts and 11 threshold programs to be disbursed over five years. Going forward the MCC expects to sign compacts totaling $1.5 billion with Mozambique, Morocco, and Lesotho along with several new Threshold Programs before the end of 2007. And six to eight countries will be ready to sign compacts in 2008. the most likely (with proposed amounts in parentheses) are: Tanzania ($799 million), Mongolia ($322 million), Namibia ($314 million), Burkina Faso ($540 million), Senegal ($255 million) and Moldova. The compact pipeline, the ten percent set-aside for threshold program funding, and administrative costs associated with managing the MCC, show the MCC can use both the money it already has and most of the money it has requested.

Continued low appropriations by Congress put the program between a rock and a hard place. The biggest impact will be felt by the poorest countries, most of which will be African countries, who worked hard to gain MCA eligibility and could face the prospect of no funding available for them when their compacts are ready to sign. Flat-lined funds will force the MCC to choose between signing larger, transformational compacts with fewer countries or financing smaller compacts spread across the increasing number of eligible reforming countries, neither of which reflects the intended mandate and global understanding of the MCA.

Furthermore, neither option of fewer countries or smaller compacts is optimal for promoting the "MCC Effect," which to date has been the major success story of the MCC. With limited funding, the result is worrisome: countries that make targeted policy changes to meet MCA indicators (either on their own or through the MCC's Threshold Program) will ultimately not receive assistance at all because of unavailable resources or the reward for reform will be too small to create a strong incentive for countries to bother.

Three concerns about the MCA that have some validity

1. The MCC isn't delivering results as quickly as envisioned.

The early MCC years were fairly typical of a start-up organization, with resources dedicated primarily to staffing, positioning the institution within the broader donor community and demonstrating to eligible countries that this was not "business as usual" aid. Start-up activities, coupled with allowing for full country ownership and ensuring thorough public consultation, inevitably (and justifiably) led to a relatively long period before actual program implementation could begin. While there were many flaws, communication weaknesses, and unnecessary delays, overall I think the MCC has done a credible job in terms of creating an entire new agency, staffing it, designing a transparent eligibility process, and educating countries on operational guidelines that, in many ways, would be novel to them.

That said, after three and a half years in operation, I believe we should be seeing more substantial progress on program implementation. Madagascar is two years into its four year compact, and Honduras and Cape Verde will soon reach the two year mark. Georgia, Nicaragua, and Vanuatu have had compacts in force for over one year. At this stage we should be seeing more evidence of tangible progress on the ground in these countries.

The MCC itself also expected to see more progress by this point. Examining its own disbursement projections made at the outset of each compact, actual disbursements under each of the eight compacts for which data are available are well less than half of what the MCC originally projected by this date. In 3 compacts, actual disbursements are less than 15% of the original projection. Of course, disbursement rates should never be the only measure of progress. In this case, however, I believe they reflect both an overestimation of the ability of recipient countries to hit the ground running on a new concept, and an overly-bureaucratic modus operandi in the MCC.

In some cases, the problems and constraints lie with the recipients. Partner country capacity and institutional constraints are testing its ownership principle, and

some countries are not holding up their end of the commitments. But some of the problem lies with the MCC itself, which in some ways has tied itself in knots with overly-bureaucratic approval and oversight policies that are bogging down operational progress and frustrating recipients. Every step of procurement, hiring, program design, and even translation of standard operating documents must be approved by Washington. This has caused delays, undermined ownership among MCA country programs, and reduced the authority of country-based MCC officials. Designing a cumbersome set of standard operating procedures has dragged down the first program year in many countries.

In some cases there is more progress than meets the eye, as the MCC has helped establish strong systems to engage broader communities to participate in decision-making, and it has helped develop country capacity to strengthen planning, financial management, reporting, and monitoring. But here the MCC has done little to capture and communicate the intangible achievements crucial to maintaining public support, although it must take care in communicating this progress to not appear to be making excuses for less progress in more visible areas.

The MCC needs to focus on strengthening these operational nuts and bolts so they become a solid foundation for (rather than an obstacle to) meeting its mission. Importantly, it needs to find a different approach to risk management and strike a better balance between its oversight and approval systems on the one hand, and the need for efficiency and forward progress on the other. It certainly should take steps to avoid misuse of funds, but there is significant scope for reducing the multi-tiered, onerous oversight procedures to allow for more rapid progress on the ground. One piece of this would be agreement by Congress that under certain circumstances the MCC can provide more of its funding through local government systems while demanding results and holding countries to task for achieving them.

At the end of the day, the single most important challenge for the MCC is to show results. Ultimately the success of the program will be judged on its ability to meet compact targets of economic growth and poverty reduction. This is the year that MCC must begin to show progress in building roads, developing agricultural systems, and other tangible results on the ground.

2. The MCA should target its operations to the poorest countries

There is an on-going debate about which countries the MCA should target—low income vs. middle income. I believe the MCA should exclusively target low-income good-performing countries.

Beginning in FY 2006, the MCC, per its authorizing legislation, added a second group of candidate countries consisting of all so called "lower middle income" countries with per capita incomes between $1,465 and $3,035 that could receive up to 25% of appropriated funds. The inclusion of these countries has always been controversial and to date, five LMICs are eligible to receive MCA finance (although two were originally selected as low income countries). Two (Cape Verde and El Salvador) already have compacts and one (Morocco) will sign its compact end August. LMICs are much richer than the low income countries and have less need for foreign aid, since they have much larger private capital inflows, saving rates, and tax revenue. Generally, countries that reach this income level begin to "graduate" from aid and move to private sector finance (for example, Morocco graduated from USAID funding several years ago). It is particularly important in a time of constrained budget resources for the MCC to concentrate on low-income countries, and to not commit funding to middle-income countries. There is an acute danger that within the next year or two, the MCC will be forced to restrict funding to low-income countries in order to make room for middle-income countries.

Some argue that many of these lower-middle income countries, even with access to private capital, have significant numbers of poor people that can effectively use MCC assistance. There is some truth to this argument, but it is true for almost every middle income country in the world, including countries such as China, Malaysia, Brazil, and Mexico, which clearly should not be eligible for MCC funding. The MCC must allocate its aid funds where they are most urgently needed among the well-governed countries, and the fact remains that most of the lower-middle income countries have several other alternative sources of finance to fund poverty reduction programs. Allocating funds away from the poorest countries (that have far fewer options) in favor of the richer countries is not the most optimal use of MCC funds. The biggest poverty reduction bang for the MCA buck is not going to be had by providing grants to countries that are three times richer than the original lower income group. In the face of competing demands of less money and more eligible countries, the MCC should not commit funds to middle income countries.

3. The overall effectiveness of MCA programs may be hampered by restrictions to single compacts of 5-year duration.

The current legislation governing the MCC does not allow it to negotiate concurrent multiple compacts with a single country, and it caps compact length at five years. Both of these provisions should be revised (both require Congressional action). The current prohibition on concurrent compacts creates the incentive for partner countries to make compacts as big (and often complex) as possible. This has led to recent compacts reaching $500 million with several in the pipeline pushing beyond this. Larger compacts, in and of themselves, are not a bad thing. Transformational growth and poverty reduction will require it.

However, this structure creates two problems. First, the original design becomes much more complicated and cumbersome, slowing forward progress. Countries feel that they have one bite at the apple, and want to put everything possible into their single five-year grant. Second, because of the complexity, countries face increased risks of not meeting compact goals within the five year limit.

The MCC would achieve faster progress and stronger results if eligible countries were able to negotiate at least two concurrent compacts, and perhaps one compact each year. It would be more manageable to have staggered, more focused compacts and the flexibility to have some be longer than five years (such as those with social investments that need more time to yield higher rates of return or major infrastructure investments that take longer to complete). This would encourage countries to better sequence interventions and reforms, develop management capacity, move more quickly in implementing smaller initial compacts, and reduce risks associated with enormous compacts. This arrangement could actually increase the resources available to countries over, say, a ten-year period, and would increase the chances of meeting more manageable and focused compact targets.

VI. SOME KEY STEPS GOING FORWARD

Several steps will help speed the process of compact implementation and strengthen the MCC's ability to provide substantial financing for poor well-governed countries. First, the MCC must thoroughly examine and streamline its internal processes and procedures that are impeding progress on compact implementation. One of the MCC's founding principles was to reduce unnecessary bureaucracy, but it has fallen short of that goal, to a large extent as a result of procedures of its own making. I understand this is underway within the MCC and strongly support it.

Second, Congress should reaffirm its firm commitment to a strong MCA that rewards poor countries with strong governance and development policies with significant financing to meet their highest priority needs. The program needs to transition from being perceived as "Bush Administration initiative" to a "good US foreign aid program." The basic MCA concept continues to hold tremendous potential for supporting countries with the greatest need and strongest commitment to support economic growth and poverty reduction. All parties should resist the temptation to broaden either the objectives or the country targets of the MCC, as either would weaken its effectiveness. The MCC's operation must be seen as one part of a broader set of foreign assistance tools, not as a single tool that can meet all objectives.

Congress should also reaffirm the core principle that recipient countries are in the best position to determine the highest priorities for funding for their own countries, whether that be agriculture rural roads, or primary school education. The MCA is designed to be flexible enough to fund whatever countries determine as their highest priority through a participatory approach, and we should all resist the temptation to determine sector allocations in Washington. In the same vein, and in the spirit of building local institutional and fiduciary capacity, Congress should allow the MCC to provide a proportion of its funding through recipient country systems and budgets.

Third, the MCC Board, together with Congress, should focus MCC resources on low-income countries, and not make further commitments in middle income countries. Although middle income countries have legitimate financing needs, the biggest needs are in low income countries. In a world of limited financial resources, the MCC should allocate its grants to countries with the greatest needs that can use it well—poor, well-governed countries.

Fourth, Congress should allow the MCC to negotiate concurrent compacts in eligible countries. Allowing multiple compacts will lead to smaller, easier compacts, faster implementation, and greater probability of meeting key objectives.

Mr. PAYNE. Thank you very much.

Mr. Carroll.

STATEMENT OF MR. ANTHONY CARROLL, VICE PRESIDENT, MANCHESTER TRADE LTD.

Mr. CARROLL. I would like to thank the chairman and ranking member for inviting me to testify here today on MCC in Africa. I wish to offer a different perspective that is one of trying to help United States and African businesses prosper.

MCC has the opportunity to be a legacy program for the U.S. Government and along with PEPFAR, an example of the compassion of the American people to respond boldly to Africa's challenges.

I would like to concentrate my testimony on three areas: Host country capacity, relationship between MCC and trade, and the new "Real Politic" of Africa. Last time I testified before this committee was on a debate in AGOA. At that time I gave many examples of the shortcomings of technical assistance programs and the gap between intended reforms and implementation. I described the special difficulties of doing business in Ghana, now an MCC compact country.

I also called for more outcome-based measures that hold recipient countries and technical agencies accountable. Happily many of these thorny impediments to business in Africa have been ameliorated, in part due to smarter and more responsible technical assistance.

However, the remaining gaps are frequently due to lack of country buy-in and the creation of feedback to monitor performance. Perhaps the greatest strengths of MCC are the requirement for broad country ownership and demonstrated accountability in compact design and implementation.

Despite this ingenuity, the capacity of those countries to fully play their part remains a barrier. Technical capacity below the very top levels of government is a challenge. Moreover, myriad donor reporting formats greatly tax these resources and MCC adds an even deeper level of reporting requirement.

At the same time MCC also seeks to help countries be prepared to run their own programs. Deployment of consultants to assist compact countries and give them support to tap their own skilled people has been helpful, but specific shortfalls have occurred in legal, financial and other management skills and systems.

My first recommendation would be to assist the process earlier by targeting technical assistance funds to potentially qualifying MCC countries to enhance their compliance capacity. These early efforts might help raise the capacity to use modern management approaches.

Secondly, we should find ways to help potentially qualifying countries to learn from the experience of others. This committee led the fight to enact AGOA, an unprecedented program for Africa. AGOA and MCC are similar in their orientation, especially as it pertains to the respective eligibility requirements. AGOA has both created in a sharp increase in African trade with the United States and has had a demonstration affect on the implementation of complimentary reforms. As proud as I am in AGOA, its impact on Africa's trade capacity has been impeded by fundamental barriers. These include infrastructure and administrative capacity.

MCC represents a unique opportunity to foster investment in infrastructure. When one examines the MCC compacts with Ghana and Benin, it is clear that investments in roads, port facilities and agricultural infrastructure can create export growth among large and small scale producers, especially when married to complimentary technical assistance.

In the USAID project that I have been working on in Ethiopia, investments in infrastructure for cold storage and cargo handling, coupled with technical assistance and land reform and foreign exchange controls fostered exponential growth in horticulture exports.

Although AGOA has been one of the most successful trade programs ever devised, it would have been more effective if a company bought MCC-type commitments. In the interest of maximizing AGOA, MCC should be given broad sway to affect deep improvements in African trade capacity, and we should prepare to await long-term results.

An inherent limitations of MCC's: Its inability to work on a regional basis. Often supply chain constraints do not end at a national border, the failure of African regional trade is often the result of substandard linking infrastructure. It would not be a disservice to MCC's principles to examine the execution of compacts with suitably responsible regional economic organizations.

There is a new reality that governs United States relations with Africa, that reality is the rapid ascent of China. At over $40 billion, China's trade relationship with Africa equals that of the United States and will grow.

While the United States is still the dominant investor in Africa in hydrocarbons, China is investing in physical infrastructure. Several months ago, China pledged $10 billion in for support for infrastructure for Africa.

What is different about such investment, they are loan rather than grant-based, tied to the involvement of Chinese business interests and unconditional in terms of political and financial accountability.

A recent statement by the Zambian President underscores the growing importance of China. While accepting the value of western technical assistance, he observes it is only through increasing investment in infrastructure quality that African economies are going to enhance their competitiveness on the global market. He applauded the Chinese for their continued cooperation in the area of infrastructure development in Africa.

MCC is an opportunity to maintain our presence and influence in Africa and this does not have to be a zero sum game. The Chinese presence in Africa is not always a bad thing as they are willing to assume longer term investment horizons and can often bring more relevant models of development based on their experience as a developing country.

I might add that India and Russia are taking interest in Africa and are motivated by many of the same interests, especially resource access. I leave open the possibilities of collaboration among these efforts.

I offer the final observation on MCC that may merit consideration by Congress. I think MCC could have a greater impact if it were combined with greater private sector investment and know

how. MCC funds combined with technical assistance from USAID could be invested in the enabling environment and institutional capacity to allow private sector engagement.

A second concern is what I hear from the African street, there is a sense the MCC process has slowed down due to bureaucratic hesitation and concerns over future appropriations. As the attached chart shows, the rate of compact approval has declined, although that has somewhat changed with the recent announcements. This delay may cost us friends who have undertaken the rigorous process of becoming MCC eligible and make the easy money of China, India and Russia all the more attractive, thank you.

[The prepared statement of Mr. Carroll follows:]

PREPARED STATEMENT OF MR. ANTHONY CARROLL, VICE PRESIDENT, MANCHESTER TRADE LTD.

I would like to thank the Chairman and Ranking Member for inviting me to testify today on the Millennium Challenge Corporation (MCC) and Africa.

Given the brief amount of time I have here today, I would like to limit my remarks to broader observations on MCC and the role it can play in African development. I have read the GAO report on MCC and have great respect for Steve Radelet and the work of the Center for Global Development. I can add little to their commentary on eligibility or administrative aspects of MCC.

Rather, this afternoon I wish to offer the perspective of someone who is involved in the more secular world of trying to help U.S. and African businesses expedite the clearance of goods from customs to meet a delivery date for trousers in Newark New Jersey, meet quality standards for flowers of TESCO in the United Kingdom or secure a letter of credit from a Ghana bank for the purchase of an electrical generator.

MCC has the opportunity to be a legacy program for the US Government. Along with PEPFAR, it is an example of the compassion and concern of the American people and our willingness to respond boldly to Africa's challenges. In essence, MCC is not only a government-to-government but also a people-to-people initiative. As a former Peace Corps Volunteer, I believe that these programs are cut from the same inspirational cloth that drove people like Congressman Henry Reuss, Senator Hubert Humphrey and President John F. Kennedy to create the enduring Peace Corps legacy.

This afternoon, I would like to concentrate my testimony on three areas: (1) host country capacity, (2) relationship between MCC and trade, and (3) the new *Real Politic* of Africa.

HOST COUNTRY CAPACITY

The last time I testified before this Committee was in the debate nearly a decade ago on AGOA and opportunities for the African Private Sector. At that time, I gave many examples of the shortcomings of technical assistance programs in Africa and the gap between intended policy reform initiatives and implementation. I also stressed, notwithstanding tens of millions of dollars of development assistance, the special difficulties of doing business in Ghana, now an MCC compact country, in terms of acquiring land, obtaining a business license, and obtaining requisite utilities. I also indicated my support for more outcome-based measures that hold recipient countries and technical assistance agencies to established performance and accountability criteria.

Happily, many of these thorny impediments to business in Africa have been greatly ameliorated, in part due to smarter and more responsible technical assistance. However, the remaining gaps are frequently due to lack of country "buy in" in terms of devotion of real human and financial resources and the creation of feed back loops that monitor performance. Perhaps the greatest strength of MCC is the requirement and support for broad country ownership and demonstrated accountability in the design and implementation of the Compact.

Yet despite this ingenuity, the capacity of host countries to fully play their part remains a barrier. In my 30 years of experience in working with African ministries, I can say without reservation that finding technical capacity below the very top levels remains a huge challenge. Moreover, donor requirements greatly tax these resources and MCC adds even deeper reporting and management requirements. At the same time, MCC also seeks to help countries be prepared to run their own programs. The appointment of consultants to assist Compact countries and give them

support to tap their own skilled people has been helpful, but MCC may not yet be able to provide incentives for and encourage home grown institutional capacity development. Specific shortfalls have occurred in legal, financial and other management skills and systems.

In the future, my first recommendation would be to begin the process earlier by fronting technical assistance funds to potentially-qualifying MCC countries to enhance compliance capacity even before those countries prepare Compact documentation and respond to due diligence queries. These early efforts might help raise the capacity of MCC-eligible countries to use modern management approaches, helping them to better identify, sustain and access activities to leverage private resources to spur growth and poverty reduction. Secondly, we should find ways to help potentially-qualifying countries to learn from the experiences of those countries successfully meeting eligibility requirements.

RELATIONSHIP BETWEEN MCC AND TRADE

This Committee and its current Chairman led the fight to enact the Africa Growth and Opportunity Act. This legislation created an unprecedented preference program for Africa. In many ways, AGOA and MCC are similar in their orientation, especially as it pertains to their respective eligibility requirements.

AGOA has both created a sharp increase in African trade with the U.S. and had a demonstration effect on the implementation of complementary institutional and regulatory reforms. As proud as I am of AGOA, its impact upon Africa's trade capacity has been muted by fundamental economic and political barriers. These include physical infrastructure and administrative supply chain capacity.

MCC represents a unique opportunity to foster investment in infrastructure on a scale unprecedented for U.S. development assistance to Africa in the past 30 years. When one examines the MCC Compacts with Ghana and Benin, it is clear that investments in roads, port facilities and agricultural infrastructure can create a platform for export growth among both large and small scale producers, especially when married to complementary technical assistance. In a project that I have worked on in Ethiopia, investments in physical infrastructure for cold storage and cargo handling coupled with technical assistance in land reform and foreign exchange controls have fostered exponential growth in floriculture and horticulture exports. Although AGOA has been one of the most successful trade preference programs devised (especially its apparel provisions), it would have been more effective if accompanied at the outset by an MCC-type commitment to infrastructure development and physical capacity building. In the interest of maximizing AGOA's impact, MCC should be given broad sway to effect deep improvements in African trade capacity, and we should be prepared to await long term results.

An inherent limitation of MCC is its inability to work on a regional basis. Often, supply chain constraints do not end at a national border, and the failure of African intra-regional trade and the lack of understanding of the fundamental doctrine of comparative advantage are often the result of absent physical infrastructure. I do not believe that it would be a disservice to the accountability and transparency principles inherent in MCC to examine the execution of compacts with suitably responsible regional economic organizations such as the Common Market of Eastern and Southern Africa or the Southern Africa Development Community. Such a regional focus would complement the architecture of the USAID-supported trade hubs. A possible formula could be that at least 20 percent of MCC assistance be directed for joint projects between national governments and regional economic communities to which they belong.

Real Politic

There is a new reality that governs U.S. relations with Africa. That reality is the rapid ascent of China. At over $40 billion , China's trade relationship with Africa equals that of the United States. While the U.S. is still the dominant investor in African hydrocarbons, China is investing in physical infrastructure. Several months ago at the Forum on China and Africa, China pledged up to $10 billion in support for new investment in Africa.

What is different about such investment is that it is loan- rather than grant-based, tied to the involvement of Chinese business interests and is absolutely unconditional in terms of political or financial accountability. A recent statement by the Zambia's President Levy Mwasanagwa underscores the growing importance of China in unlocking Africa's economic potential. While accepting the value of western assistance, he pointedly observes that "It is only through increased investment in infrastructure quality that African economies are going to enhance their competitiveness on the global market. We applaud the Chinese for their pledge for continued cooperation in the area of infrastructure development in Africa."

MCC is an opportunity to maintain our presence and influence in Africa. This does not have to be a zero sum game. The Chinese presence in Africa is not an altogether bad thing as they are willing to assume longer term investment horizons than U.S. investors and can often bring more relevant models of development based on their experience as a developing country. I might add that India and even Russia are taking new interest in Africa and are motivated by the same interests in resource wealth as China. I would leave open the possibility of collaboration among these efforts. For example, China is astute in providing appropriate technological solutions for small farmers whereas MCC Compacts could address such supply chain constraints as agricultural storage.

FINAL OBSERVATIONS

I would be remiss unless I offered a few final observations on MCC that might merit further consideration by the legislative branch. While I understand the merits of the Compact and the underpinning accountability and transparency criteria, I also think that the MCC could have a greater impact if it were combined with private sector investment and know how. For example, African infrastructure still operates on a monopoly basis. MCC funds combined with technical assistance from the USAID and other donor agencies could be invested in the enabling environment and institutional capacity so as to allow private sector engagement. The Administration has offered new models of privately directed investment funds, and there may be opportunities to coordinate the deployment of these funds in conjunction with MCC Compacts.

A second concern is what I hear from the African Street. The tendency to prefer larger and more comprehensive compacts make the line for newly eligible countries longer. There is a sense that the MCC process has slowed down due to bureaucratic hesitation and concerns over future appropriations. As the attached chart shows, the rate of Compact approvals has declined steadily since 2004. This may cost us many friends who have undertaken the rigorous process of becoming MCC eligible and make the easy money of China, India or Russia all the more attractive.

Mr. PAYNE. Let me thank you very much, all three of you, for your very interesting testimonies.

Mr. Carroll, your last point, would you repeat those again, the summation about the final paragraph or so, I want to ask our other two witnesses what their reaction to your conclusion——

Mr. CARROLL. My last two points were, I guess, the issue of how we might be able to use the MCC program to do some leveraging with private sector investment. And secondly, on the issue of expectations in Africa, I think they are high, I think they are grounded on reality, but the slowness of being able to deliver may frustrate some countries that have gone through the steps of becoming eligible.

Mr. PAYNE. Let me ask our other two panelists what are your responses to those two points?

Mr. RADELET. Well, I want to focus on the last point about the expectations in Africa, and I think that there is a danger, there yet, but there is a danger on the horizon that funding levels for the MCC declined significantly, we will have countries that jump through the hoops, become eligible, go through the process, design a good compact, and there is no funding for it. If that begins to happen, the incentive affect of the MCA is going to begin to decline very quickly if countries believe that they won't be able to access significant amounts of funding in the way that has been promised.

It could well be that if funding gets cut next year the most recent Senate mark the other day, $1.4 billion, we could be facing something next year on the year after where countries that qualify are not able to be approved because of a lack of funding. If that is the case, then I think the incentive affect could unravel quite quickly and there is the possibility that countries will turn to other funders

and say we have this project, it is ready to go, it is a great road project, a nice infrastructure project, the U.S. isn't going to fund it, is there someone else here who can fund it for us. I think that is a possibility if the funding isn't there.

Dr. GOOTNICK. I would add that much of the discussion on infrastructure in Africa has been about the building of roads by MCC. A number of MCC compacts in Africa are looking at major infrastructure projects that would have implications for international trade. For example, in Benin and Cape Verde, both countries' compacts support major renovation of the ports of Cotonou and Praia. In Mali, there is a major infrastructure project looking at airport improvement and an industrial park there. Likewise, I believe an industrial park is part of the proposal in Senegal, so some of these things may bear to notion of increased trade flows.

Mr. PAYNE. Let me ask you, based on its rate of expenditure, could the MCC run out of the money in the next fiscal year if Congress continues to flatline its appropriations, in your opinion?

Dr. GOOTNICK. Well, at this point, and let me start with the discussion in the absence of the $2 compacts that were identified recently, they are—they do have $2.1 billion set aside for compacts that is unobligated. The two compacts that were signed—excuse me, the board approved for signature over the past 2 days would represent another nearly $900 million.

It is important to realize that between compact signature and entry into force, which is the point in time when MCC formally obligates the money and will begin to spend on it, has been 5 months or longer. There is a good chance that with the progress demonstrated here in the past few days, that there may not be significant additional funds formally obligated in this fiscal year, so I think the observation would be that unless MCC significantly increases the rate at which it establishes new compacts, they are not likely to exhaust their obligations if one assumes the House foreign ops bills appropriation of $1.8 billion for fiscal year 2008.

Mr. PAYNE. Thank you very much. Mr. Carroll, you mentioned China's intervention in Africa. Would MCC's three basic goals, one of which is, of course, ruling justly, and you take the People's Republic of China's absolute absence of emphasis on good governance ever be a factor for China? As a matter of fact, I think Zimbabwe was offered a loan by the People's Republic of China because the World Bank and other organizations felt that because of the horrible abuses happening in Zimbabwe, with the political rights of people being taken away, and the ruling party really bringing the country almost to a halt. The People's Republic of China offered the loan with no strings attached.

We are trying to push MCC goals and objectives. As a businessman, do you feel China's investment is positive—with the no strings attached policy? What about their behavior in Darfur? I just wonder how you come to the conclusion that China is good, other than as competition to us.

Mr. CARROLL. I am not sure I would describe it as a competition per se. I think we have to acknowledge that China is becoming much more ambitious toward Africa for a variety of reasons, not only access to its resource wealth, but also to improve and enhance

its influence in the world pertaining to international organizations and so forth.

I applaud Congressman Payne's efforts for many, many years in Darfur, and certainly Liberia and Zimbabwe in raising important issues and asking the right questions about Chinese involvement. I think some of the actors in China are changing a little bit. Let me give you an example: I was on a CSIS delegation to China to talk about Africa just a few months ago, we pointed out in our discussions that their adherence to this non political intervention policy that they have often may create not only reputational risk, but unintended consequences.

Ask the people in Botswana what they feel about the continuing unraveling situation in Zimbabwe, which creates a lot of instability in Botswana. Well, they may have a different view on Chinese non-engagement. So I sense there is a slow recognition by China that there are reputational risks. My final point on China is they can bring some valuable experience because they have more relevant development country experience and particularly in the use of appropriate technologies and in the area of agriculture. While one cannot condone their activities in supporting Darfur and arm sales and other things that you have pointed out many times in the past, I also think in many instances their ability to grow rice in certain parts of China may have greater applicability in Africa and the technology they employ for a product may be relevant. Thus, I don't think it is a completely bad thing, they can bring some valuable support to Africa and there may be ways that we can collaborate in some of our activities with them.

Mr. PAYNE. Mr. Royce.

Mr. ROYCE. Thank you, Mr. Chairman.

The MCC doesn't seem to have a large constituency. Our food aid program has support and farmers support shippers, but with few earmarks. Congressional support for MCC is soft and the Senate is putting forward a low MCC number. So one question I have is: Besides Africans and think tankers like yourself and those of us who have a particular interest in public policy here, who backs the MCC, what is going to protect it from earmarking and becoming over burdened like USAID? We talked earlier, Mr. Carroll was talking about China as engagement there; part of the problem with the Chinese engagement is that rather than conditional upon evolving rule of law or echo reforms, when I am in countries having conversations with ministers, they are concerned about payoffs being made by China to other ministers and quite the opposite toward good governance, so I wanted to ask you up front these questions.

Mr. RADELET. It is an excellent question. It is a challenge because it is a little easier to sell other programs to the American public that are focused on a very specific item, but I think there are two ways to answer that. One is I think the MCC once it begins to build the roads and get agriculture moving should be able to market what it is doing. I mean this in a positive way of saying their funds are helping to bring X number of people out of poverty in Africa, that's something people understand. I tend to use my grandmother's in northern Michigan test: If she can understand it in three sentences, I am in good shape. A lot of the language we

use today she can't understand. But if I talk about building roads to farmers so that they can sell their products and have more money for clothing and food and roofs; she understands that perfectly. If we can couch what we are doing here in terms of lifting X number of people out of poverty and providing jobs and opportunities, I think that will resonate with the American people.

Mr. ROYCE. Mr. Carroll, I made the point in my opening statement that the MCC has had a very positive impact beyond the borders of the countries that it is involved with. I think if we look forward we see a lot of occurrence about cutting corruption and allowing for property title and so forth, because they are sort of cueing up for MCC. I ask if you agree with that and ask what level of funding you think is needed to keep that affect alive?

And also I ask you this, Mr. Carroll: AGOA has been a success, what else should we be doing on the trade front with Africa? The farm bill is moving through, the chairman and myself, I think, have had great misgivings with subsidies.

Is there hope our subsidies will lessen and become less destructive to African development? That's another issue I wanted to ask you about, Mr. Carroll.

Mr. CARROLL. Let me say about the demonstration effect of qualifying for AGOA for MCC eligibility and there was a chart here about how Zambia has reduced the time necessary to form a company from 36 weeks to 10 weeks. And I think that this is a phenomenon that is really picking up a lot of attention elsewhere in Africa. I do think the idea of modernization of organizing business and securing title and so forth is happening at pace.

Let me point out to you, some of this will take time and we have to be prepared to wait it out. When I was a Peace Corps volunteering in Botswana, we worked on land reform of a system that is more modern than any of the countries that we are talking about today. Yet it took many, many years for Botswana to regularize its land ownership, allow for securitization of title and be able to make investments into real estate, so we have to be prepared for some of these reforms to take longer than what might ordinarily be the appropriation cycle expectations.

On the issues of continued funding—let me point out it has been written up in the press lately, there is a bit of a generational shift in Africa. I think partly because of the access to information that is available, there is now something called the Young Cheetahs, these business leaders are taking a greater interest in how they are being governed and how the funds are being spent. The former minister of finance in Nigeria made a huge impact on how funds are spent on a local level when she made transparent all the distributions of moneys from the Federal Government to the State government. So I do think there is greater expectation, greater knowledge, and among the business community and civil society to expect more from the governments and among the area that we are seeing this is in the area of regulation.

I am not an appropriation expert, but given the final comment, the countries who are doing what they are to become eligible, I think we do have to have sustained increase in these funds. I don't think with have to look at something in a flat line, we have to be aggressive and support this process.

On the issue of farm subsidies, I am still a believer in the WTO. Last week's announcement in the collapse of the G–4 talks on the Doha were a great disappointment, but I do believe that we still need to maintain our support and our engagement on the Round. I believe the idea of opening up markets for African agricultural products is an important one. One of the goals is that we obtained modest success is cotton. It will take a little political capital from people like yourselves to hold their feet to fire on this.

Mr. PAYNE. Thank you very much.

Ms. Watson.

Ms. WATSON. Thank you so much to the panel, Mr. Chairman, and to the panel, thank you for the information you are bringing to us.

As we look at the qualifying factors for the poorest countries on the continent of Africa, my thoughts go to whether they are positioned to compete, and I understand the total size of the pot is $5 billion that could be used in one country.

Dr. Radelet, I heard you comment regarding the compact link and the timing of it, and I really concede your part that shorter compacts might be useful because I don't know if they can spare the time to fulfill all the requirements to compete, so should we look at maybe shorter term and then longer term on comprehensive compaction? And would it be best to permit some flexibility so MCC can offer that flexibility, I don't know if several of these countries in looking at the list will be ready to compete and take advantage. Who knows, this program might change next year. There is a new initiative out there, and I want to be sure that our aid practices are going to benefit these countries. You have to take into consideration their cultural backgrounds, the conflicts between sets and so on, in some of the countries we spend so much time with one set against another, one tribe against another and so on. I just don't know if they can stabilize enough to meet the criteria, can you respond?

Mr. RADELET. Yes, that is a good question, really two parts. One is on the capacity issues that you have raised and the other is on the structure of the compacts. On the latter—on the structure of the compacts—one is the length of 5 years, the other, which I think is more important, is the restriction that there is one compact at a time. I think a lot of the issues we talked about today could be partially resolved. Even if we kept the compacts 5 years, just say you are eligible this year, you can design a compact this year, but you will have an opportunity to design another one next year and the year after as long as you continue to be eligible. So that each compact instead of being $500 million might be $100 million, much easier to manage. In some cases, the shorter compacts are also appropriate, but the key point is one compact allowed over 5 years, and that adds to the complexity.

In terms of the ability of the lower income countries to compete, I have great faith actually in their ability to compete, and this is a mechanism that can actually help them to build the capacity to compete. Mozambique had its compact approved yesterday. It is one of the poorest countries in the world. Not long ago it was war torn. In the early 1990s, the per capita income was $80, it was at the bottom of every development list you could find. They have had

a remarkable recovery both economically and politically. It is a thriving democracy. They have had 10 years now of 6 percent economic growth. It was difficult in the beginning for them in the MCC process. It took a little while. It took some debates, but they built their capacity, had the debates internally. Even though it was a struggle, they did it. As a result of that they have built a capacity to think broadly and to design a project that fits into their broader development strategy. Instead of USAID designing the programs, instead of the World Bank designing the programs, the MCC put the ball in their court and with patience and with some support, helped them make these decisions and trade offs.

I spend a lot of my time working in Liberia, which is obviously one of the poorest and most conflict-torn countries in the world, or was. They are in the process of rebuilding. They very much want to take on this challenge, and it will be a strain and will be hard for them to do it, but they believe that that is how you build to capacity, that they make the decision rather than allowing the donor countries to make the decision for them. It is not easy, but in the long run, it is the right way to go.

Ms. WATSON. President Johnson Sirleaf, when she was here, I think gave us one of the most hopeful inspiring plans to move forward. I trust her ability to do that because she's had experience with the World Bank and so on.

However, I don't know if some of the countries that are trying to compete have the kind of leadership that has that experience and ability. So I was just thinking as I was reading through the new criteria, if we should not allow a little more flexibility. Can you comment?

Mr. RADELET. One thing I would do is focus on the low income countries rather than the middle income countries, but that is only part of it. I think the qualifying criteria are the right initial guidelines, but they are not absolutely adhered to in all cases.

Mozambique is a good example. It did not actually meet the eligibility requirements in the first year, but yet the board looked at it, looked at the history, saw the positive trends in many of the indicators, and even though it didn't strictly make the criteria, nevertheless selected Mozambique as an eligible country. I think that was the right thing to do under those circumstances.

I think in some other countries, that kind of flexibility is the right way to go—to provide countries that are showing promise, the mark of approval to recognize the progress they are making and to recognize it is harder for a country with per capita income of $150 or $250 to carry these things out to relative to a country with per capita in come of $600 or $800.

Typically, in a slightly richer country they have more capacity—economists, lawyers, more trained people to carry this through. I think some flexibility along those lines is appropriate, but I think it needs to be case by case. So you start with the indicators, but then go beyond the indicators and look at the trends over time, the improvement countries have been able to carry out and some judgments and some exceptions in certain cases to allow them to become eligible.

Ms. WATSON. Mr. Chairman, I see the red light is blinking, may I ask one more question?

Mr. PAYNE. It is probably malfunctioning.

Ms. WATSON. Recently the country Lesotho, their Parliament just passed a bill, I guess, to allow the women to now take ownership and so on. It took them a while because for hundreds of years, even thousands of years, a woman who was one of many, many wives had no possibility of claiming property within that marriage and so they had thought it through and they just came up. Now I would see them as probably needing more time, but I think you answered my concerns is that there is some flexibility built in given the past history of the particular area.

You know, I sit on the Foreign Affairs Committee and I listen to my colleagues talk about programs that we should use as models and institute them in Africa, and when I first came here, Mr. Chairman, I was number 45 out of 45. And it struck me that we are talking about Africa as a country not as a continent with 154 nations, 22,000 tribes speaking 16,000 languages. There is so many, north, south, Lesotho is in the mountains and cooler climate. I was thinking, my goodness, we really don't understand the cultures, the practices, the mindsets, the tribes and so on. And so that then begs for us to build into the flexibility based on the history and the changes in government and administration. And I am just wondering if these aid programs take that into consideration.

Mr. RADELET. I think the beauty of the MCC is that it does look for these distinctions across countries. For way too long, we have talked of Africa as a country. There are big divergences, yes, we have problems in Sudan and Somalia and those need urgent attention. Too often that is the focus of the attention, not the countries where there is great hope, Senegal, Ghana, Mozambique, Lesotho, Liberia, Mali, Benin and many other countries.

In 1989, there were four countries in Africa considered to be democracies, today that number approaches 18. This is one of the most important changes in world history that, in a continent so poor, there has been this shift to democracy. Some tentative, some still fragile but it is a major shift and almost no one knows about it. That is the set of countries that this program is supporting. It is actually those countries who have moved toward stronger governance, moved toward greater participation. It is not designed for the countries that aren't there yet, and that is okay, we have other programs for them. This is for the countries making that movement, and we need to support it by giving them the flexibility and support, letting them choose the priorities, and I think that is exactly what the MCA begins to do.

Mr. PAYNE. Thank you very much. I couldn't agree with you more, we have to look individually, Mozambique is a good example, they decided they wanted the war to end. They decided let's go to Rome, let's have some dialogue, so they came together and decided to end the war, they transitioned into political parties and in spite of their poverty, have continued to struggle and move forward. That is really a great example.

We have had a series of hearings regarding the perception of the United States in various regions of the world through Mr. Delahunt's oversight subcommittee. Africa by far has the highest positive image of the United States of America, it exceeds 80 percent, which I think it is even higher than in the U.S. I think that

we need to really capitalize with programs of this nature to continue to see if we can really attack that abject poverty that we see.

Ms. Jackson Lee.

Ms. JACKSON LEE. Thank you, Mr. Chairman. I simply want to make a few comments and hope that we will have an opportunity for oversight to answer some of my concerns. I think as I am refreshed on the announcement that the President made in 2002 and the somewhat complex structure of the board, I know there were good intentions around the Millennium account.

I do associate myself with the chairman's comments about process and slowness even though we should applaud the fact that more than half of the countries are from Africa. I do see Liberia has not yet been able to meet the standards for a compact, Democratic Republic of Congo. So I raise the concern of whether or not what is woven into this process is politics.

This concept of democratization I use it frequently. I believe it has value, but we have been described as a democracy republic, I am still quarreling with myself as to whether or not there are other tests of democracy other than what we might see that would expand the opportunity for this fund to be expended in countries that we may not necessarily use our political allies.

I frankly am troubled that maybe that is a criteria used, no matter how structured we have the selection process. And I think that is a wrong direction to take. Think that there are countries that may have in the scales of justice high on this end and low on this end but still deserving, how do we meet their needs as well.

So I will continue to listen on this point and peruse what is occurring, but I frankly believe that when you have the amount of money that are in the account that are unexpended we have a problem. We are letting criteria block a broader view.

There is a chart that I can't fully comprehend, but it doesn't look like Chad has a compact and having gone to those refugee camps and see the enormous burden Chad has taken with the Sudanese refugees, why not. I was there, I know the Chad government has had its moments of lack of stability, but I do think an account like this with the good intentions that it has should have a broader base. I just want to make those remarks on the record having to leave for another meeting, time has gone, maybe I will have another opportunity—maybe I will pose this question, if you gentleman could provide me my answer in writing, I then would be able to peruse it.

But I for one am troubled by the account, feel it is not meeting all it could be. I appreciate the good intentions, I think there are many more ways that we could utilize those dollars effectively if we didn't hold to such a stringent and rigorous political litmus test for some of these people who are dastardly in need. The government is one entity, the poor and devastated people are another entity. I yield back.

Mr. PAYNE. Thank you very much.

Let me ask you, Dr. Gootnick, are you able to project whether or not the rates of disbursement will increase over time as compacts get up and running? Do you see this mechanism being able to really move it forward?

Dr. GOOTNICK. I am not sure I am in a position to really project forward, what I can say is MCC has identified, listed a number of concrete steps that they intend to take that will auger in favor of meeting their disbursement goals. One of the ones I alluded to in my oral comments was the use of 6O9G funds. Six-zero-nine-G funds are dollars that MCC has authorized to spend in advance to entering into a compact that allows MCC to provide recourses to a potential recipient for purposes of ramping up some of the structures and mechanisms that will allow them in their first year or early years to proceed more expeditiously. I think that is one promising vehicle that MCC has started to use.

It is my understanding for Benin and Ghana for staff that had not in place in the first Africa compacts, Madagascar and Camp Verde were in place and ready to go earlier in the 5-year cycle. In addition, some of the streamlining procedures that Mr. Bent spoke about, I think do have the potential to allow MCC to meet their disbursement projections in the coming years.

Mr. PAYNE. Let me ask a question about the disparity in income, I know that part of the calculation for eligibility is the income average income or median income. Say in a place like Namibia, where you have a very skewed income where a very small group of people skew the entire country. Namibia would not fall in that category because of the high income. One might even find the same in South Africa perhaps, and even in Zambia, I don't know, the countries that had the strong apartheid type regimes where still to this day the wealth is held in the hands of a few; property, land, so forth, how do you see those countries? Has that been taken into account, Dr. Gootnick, you are probably expert on this, how do you work that out?

Dr. GOOTNICK. I am not sure I can directly answer your question as to the extent to which countries with a widely skewed per capita income, are they advantaged or disadvantaged by MCC? What I can tell you, the very interesting question Congressman Watson posed earlier, within the low income countries, are those that are the poorest amongst the low income countries disadvantaged with respect to qualifying becoming eligible for MCC funds.

We did do an informal look at that in the first candidate class. May 2004 was the first cohort that were deemed candidates for MCC assistance. These were low income countries, $1,450 per capita or lower who were not otherwise ineligible for foreign assistance under the FAA. When we looked at those, they ranged from $1,450 right down to a couple hundred dollars; we did not find any correlation between per capita income and eligibility on the 16 indicators.

So that really does say, at least from a statistical perspective, that the poorest of the poor countries, were not disadvantaged amongst the low income countries for being eligible, particularly when you add to it the discretion Dr. Radelet spoke about in making eligibility determination, it does suggest the low income cadre are all in the same boat to the extent they are eligible—to the extent the candidates are eligible for compacts.

Mr. PAYNE. Yes.

Dr. Radelet.

Mr. RADELET. Following his point and then I will address your question. I agree with what Dr. Gootnick just said with one excep-

tion, we also looked at a bias on the indicators for income. There seems to be bias on the social indicators. It seems to be harder for the low income countries to reach the median on spending on health and education; immunization rates in particular was the strongest bias; and gross primary education completion rates. More of the poorest countries failed those indicators. On budget deficits, inflation and democracy, there didn't seem too much of a bias.

Your question is a really hard and a really good question. The direct answer to your question is that as far as I am aware, the income distribution issues are not taken into consideration. As a starting point, that is probably okay but as an ending point I don't think it is. How to incorporate those is a complicated issue. Now what the MCC does is decide who is in the pool of eligible countries. As a result of a particularly skewed income in South Africa, they are above the income threshold and out of the pool, they are totally out. Namibia is still in the lower middle income country category. I argued earlier that I would take out the lower middle income category in total.

If you really pressed me I would make an exception for Namibia, for exactly the reasons that you pointed out. It is a very small percentage of the population with a very high income that throws off the averages. It is a little bit of a slippery slope because in many middle income countries, whether it is Brazil or Mexico or Thailand or Malaysia, you can find lots of poor people. So the danger in going too far in that argument is you open this up to every country in the world, and in a world of limited resources, you then have Mozambique competing against Malaysia and that would be a problem.

So how you take into account the very extreme distribution problems in South Africa and Namibia and not open the door for everybody else, I think, is a difficult question. I think overall, the MCC is in a good place in the sense it makes perfect sense that Namibia actually is a qualifying country. I would not disqualify them. South Africa is a tough call. There are a lot of poor people there, but South Africa has more at its disposal than any other country in Africa other than Botswana on a per capita basis. So I think they are in a good spot, but you put your finger on a very complex question without an easy answer.

Mr. PAYNE. The representatives from Namibia, in particular, when it came out, were very, very concerned and felt that they were—it was discriminatory against them with their set of circumstances, in South Africa too.

Mr. RADELET. They are right.

Mr. PAYNE. The down side is if you take a country like Haiti, which is probably a country which needs the most, forever will never be able to qualify, and so in line with what——

Mr. RADELET. That is a different issue and a good issue. My answer is that it is okay that Haiti doesn't qualify for this problem. The answer to that is to look beyond the MCC to the other foreign assistance tools, and recognize we have other tools much more appropriate for supporting Haiti. It comes to Congressman Jackson Lee's questions about Chad. I would support them. I think the refugee camps in Chad are worthy of support, but I don't thing the MCC is not the right tool to do it. I think more traditional USAID

support is the way to do it. I think we need a diversity of tools and use this one for the poor but well-governed countries and have other tools that go around governments, because as she pointed out, there is a distinction between governments as one entity and the poor people in those countries is different. This is a program that can go through well-governed countries, for those less well-governed, we need tools and to strengthen those tools and they are not strong at the moment.

Mr. PAYNE. One point on that, if you would continue, we do the calculation of what this compact—we know it is not supposed to be the solution totally, but you talk about the transformation out of abject poverty, the value comes to $28 per person if we take the total budget and divide it by the number of people, and I just wondered whether is that enough of a move toward moving people out of poverty when you look at the numbers. It is so miniscule that way.

Mr. RADELET. It is at the lower end. If you look at countries that have been successful, Mr. Carroll mentioned Botswana where he had lived, another one where our aid programs have been successful. If you look at Botswana's total average aid in today's dollars, it was almost $100 per person for about 20 years. In South Korea, it was much higher, about $150 per person. In Africa, in general, aid is only about $30 per capita, adding the MCC if they are doing $28 per capita, relative to what countries are receiving, that's a big lift. Whether it is enough, I think it is better, but it is not quite clear to me that it is enough. It obviously depends on many factors and aid is not the only answer, it is what else is going on in the country. If you look at some of the other successful countries, the international community supported them with funds that are closer to $100 per capita over more sustained periods of time.

Mr. PAYNE. Mr. Carroll, maybe I will ask you this question. The light must be malfunctioning with me too. It is showing red.

A country like Kenya, where you have—and Ghana, where you have a lot of potential, of course, MCC is not in those countries, but in one of the countries that you have seen MCC in, have you seen any development of entrepreneurial spirit by virtue of the fact that the MCC is there, or has it not been there long enough to see any change in business groups? Secondly, in places like Kenya and Ghana, where you do have pretty entrepreneurial spirit, what types of programs do you see? Because most of the people are still very poor but there is a movement of business entrepreneurship in, say, Kenya and in Ghana.

Even we heard Ambassador Watson mention about the change in the status in Lesotho. There was also legislation passed through the Kenyan legislature, which just passed laws protecting women against domestic violence, which is a great move in the Parliament.

So I wonder in those kind of countries, what sort of assistance or types of programs do you think we could put into effect?

Mr. CARROLL. Let me just say that I think it is a little bit too early to say whether there has been a demonstration effect at the sort of firm level because of the expectation of MCC funds because we are still sort of in the structuring process.

I will point to a couple of examples that I have noticed in my work in MCC compact or eligible countries. For example, in

Burkina Faso, I have done some work with the shea butter producers. The Shea Butter Producer Association has organized itself. They are hoping to not only use USAID technical assistance, but ultimately when they qualify for a compact with MCC, being able to use some of the infrastructure projects, some of the reform and capacity development projects that would be a part of that compact to improve their competitiveness.

Ghana has, I think, been a successful story in many, many ways, and MCC may play a part in that but, for example, the cocoa sector has done very well. Ghana had made important investments in modernization of land reform. I remember one time trying to invest in the development of a fish farm there, got all the approvals at the appropriate Federal level and got to the stage of bringing equipment out to the site itself when we found out there hadn't been the reconciliation of land conflict at the tribal level. Land reform in Ghana has moved a great deal in just a matter of a few years.

So I do think there has been an expectation and anticipation of modernization of these rules and regulations that have improved the business climate dramatically.

Kenya is, I think, a glass sort of half empty and half full. Of many of the countries, Kenya has the most sophisticated business players. They are very competent in banking, in accounting and financial services across the board, yet there has been a legacy of corruption that emerged through 25 years of misrule that isn't necessarily going to leave overnight. I think we have to be engaged in Kenya, continue to show examples. I have worked on the board of Street Law, we have done a lot of community legal development in Kenya that has gone a long ways but there is still a lot of work to be done.

Mr. RADELET. If I can add just very quickly; two countries where I have spent a little time and looked at this closely in terms of the MCC process—Ghana and Mozambique. In both cases, what we saw was great discussion and debate between private sector leaders and government leaders and civil society leaders in terms of what the priorities should be and what this program should look like. That is not quite unleashing the entrepreneurial skills yet, but it did provide a format for debate and discussion between the private sector and the government leaders in a way that World Bank programs and USAID and other programs don't do. Because of the way the MCC throws them the ball and says you guys figure it out, it has forced this discussion I think in a very positive way.

Mr. PAYNE. Well, I really appreciate all of your testimonies. I think that we have seen a change in terms of pressure being brought on extractive industries and commodity industries like the coffee industry and the chocolate industry. It can't be back to business as usual. There are reforms that have been made, there are value-added processes going into where the commodities are grown. Rather than sending the coffee beans somewhere, they are processing, chocolate, they are moving into looking at the manner in which—and sort of weeding out child labor. And there is a lot of more consciousness and it is going to actually improve, I think, the quality of the conditions of workers in these countries.

Secondly, I feel that this program is a sea-change. I heard my colleague mention the fact that there is no real constituency. However, I do think that we are not going to roll back programs of this nature, in my opinion. We saw initially the U.S. Government talk about $250 million for HIV/AIDS about 10 years ago. That was going to be our commitment for 5 years. I really told a very prominent Secretary of State at the time that he really wasn't going to say that at the U.N. Maybe he could say that would be a beginning point, or say something but don't say that, which he didn't. As we have seen, HIV and AIDS go to $15 billion over a 5-year period now, to where now the President has said that he would like to see it $30 billion over the next 5 years.

So I think we have programs that are going to be irreversible. We need to take a look at AGOA and see how that can be expanded; Liberia now is eligible for AGOA. We are going to have a hearing on AGOA on the 12th of July where we are looking at ways that can be strengthened so that it can really be more effective as a trade promotion program in our country.

So with that, I would like to thank—I think the gentlelady from California wanted make another comment.

Ms. WATSON. I think you just addressed one of my concerns too, and that is for additional funding in the program. As I look down the list of some of the countries that might be eligible, what caught my eye, Dr. Gootnick, is that you had served in the U.S. Peace Corps. And I was just thinking—you were with the medical services, correct? I was just thinking that some of these countries and some of the new governments and so on probably need the training.

We were just last year in a kingdom called Bafokeng, it is right in South Africa, and they discovered a platinum mine, a strip that ran through it. And the Queen Mother said that she was sending the King—the King was her son, her husband had died maybe 5 years earlier—but she was sending her young people to Europe and the states for education so they could run the operations of their own mines and their own kingdom could benefit from that.

I am wondering, some of these older countries with many, many problems and new governments and all, could the Peace Corps really help in terms of providing them with some of the experience so they could grow their government quicker and be eligible for the funds? This is a question to you, Dr. Gootnick.

Dr. GOOTNICK. Well, as it happens I think I am the only person sitting at this table who wasn't a Peace Corps volunteer. I did serve as a volunteer in Africa for another program as a young man and did work at Peace Corps for 7½ years. You are correct, Congresswoman, I worked in Washington, DC, as the head of the medical program.

But I think we all have had the experience of seeing or being volunteers in Africa and knowing that on an individual basis on a very small scale, the kinds of impact that you can have. And it is interesting that you should perhaps bring that up toward the end of this hearing, MCC looking to have impact on really a very large scale, almost the other end of the foreign assistance spectrum.

Ms. WATSON. It just jumped out at me. I saw Peace Corps. I thought if we could bring the Peace Corps in closer with MCC and MCA and maybe depend on them. I know they work in rural areas

and so on. I had them out at my post, and it was very helpful. I thought they might have an expanded role to help train those in the newly established governments.

Mr. RADELET. If I can weigh in on that, the Peace Corps is great at what it does—a lot of teaching, basic health care and providing those kinds of services, often with volunteers that are just out of undergraduate or sometimes retired volunteers. What they don't provide is policy advising and the kind of advising that would help do this. I am not sure that it would be right for the Peace Corps to do this, but I do think you have touched on something that we have thought about in the context of Liberia—how can we get young people that are out of their master's degree programs, say with a couple of years of experience, to go and volunteer as young policy advisors or special assistants to people in Africa that could help on this thing?

I don't think Peace Corps is the right way to do it. CGD has a small program in Africa funded by a guy named Ed Scott. It is a small program in Liberia where out of his own pocket he has funded six people going to Liberia for a year to work in various ministries with exactly——

Ms. WATSON. May I just interrupt you? The Peace Corps jumped off the page at me because I know they can be very helpful. But it could be some other kind of corps. My staff, the person sitting right behind me, went to Liberia and he came back and said that the President is in need of security. And as she is trying to build her court system and her police force and so on, she is in need.

And then also the child soldier. And we committed that group of us would come over and help in terms of their psychological needs, changing that behavior. So the corps could be called any name, but it occurs to me, Mr. Chairman, that as part of the MCC, if it is really going to be effective, we need to have it structured so it could serve many needs and not just the criteria that is here at the current, but until we can change the behavior and the mindset, the child that was 9 years old and became a child soldier, a gun was put in his hand and so on. We need a corps that can address those needs. I just want to make that statement.

Mr. RADELET. We have a huge number of young Americans with masters degrees that would love a way to go to Africa and volunteer at this kind of level for a year, and we don't have a program for that.

Ms. WATSON. Maybe we should think about that and probably address that.

Mr. PAYNE. Sort of a foreign Vista program. Let me thank all of you. I think this was very insightful. We look forward to monitoring the program as it moves forward. Thank you very much. The meeting is adjourned.

[Whereupon, at 4:46 p.m., the subcommittee was adjourned.]

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